# Ending fossil fuel subsidies: some policy options

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Zombie Energy: Climate benefits of ending subsidies to fossil fuel production

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## First, a historical perspective on fossil-fuel production subsidies — the case of bituminous coal

- Countries have phased out fossil-fuel production subsidies in the past. Over the period from the 1960s through the early 2000s, subsidised coal mines were closed down across much of Western Europe — in Austria, Belgium, France, Ireland, Italy, the Netherlands, Portugal, and the United Kingdom — as well as in Japan and in Cape Breton, Nova Scotia, Canada.
- Germany, historically one of Europe's biggest producers, has been gradually phasing out its subsidies to the production of hard coal, and has committed to ending them completely by December 2018.
- The mine closures that these subsidy reforms precipitated often spurred large-scale labour unrest or required considerable expenditure to retrain and redeploy redundant workers.
- In some cases domestic production was replaced by imports, in others by other fuels. There were climate benefits, but often indirect.

# Formal law: FF production subsidies and the WTO

- Contrary to what some people have asserted, WTO subsidy rules, as set out in the Agreement on Subsidies and Countervailing Measures (ASCM), do apply to fossil fuels.
- However, there have to date been no disputes brought to the WTO (or its predeces-sor, the GATT) against a country's fossil fuel production subsidies. There may have been a few cases of countries applying countervailing duties on fossil fuels, though.
- Never say never, of course: It is not unthinkable that a WTO member might mount a dispute of another country's production subsidies at the WTO.
- However, most of the support provided to FF production provided by national governments to date (except for coal) has been in the form of tax preferences, which are difficult to challenge if they cannot be shown to be de facto export subsidies.
- In recent years, there have been calls for negotiating a stand-alone agreement on  FF subsidies at the WTO.

# Informal law: the G20, APEC, and other groups

- The G20 Leaders' Statement from the 2009 Pittsburgh Summit includes a commitment to "Rationalize and phase out over the medium term inefficient fossil fuel subsidies **that encourage wasteful consumption**".
- The 2009 APEC Leaders' Declaration includes similar language: "We also commit to rationalise and phase out over the medium term fossil fuel subsidies **that encourage wasteful consumption**, while recognising the importance of providing those in need with essential energy services."
- Initially, the common interpretation of these statements was that they explicitly left out subsidies (however defined) benefiting FF production.
- Yet we have seen that some members of these groups have been willing to declare their intention to phase out government support to FF production. This was shown in the G20 peer reviews of China and the United States, for example.
- Perhaps also notable is that G7 Leaders, at their May 2016 Summit in Ise-Shima, committed to "the elimination of inefficient fossil fuel subsidies" — without the "that encourage wasteful consumption" qualifier — and encouraged "all countries to do so by 2025."

# So, what next?

- That some countries are proposing to phase out production subsidies creates a precedent and opens space for new conversations. Those conversations need to take place at both the domestic and the international levels.
- At the domestic level, civil society organisations (CSOs) can remind exporting governments who tax domestic fuel use heavily that their (untaxed) exported FF products will also add just as much to carbon emissions.
- At the international level, better data are needed to make more complete international comparisons. The research community and CSOs can help in this regard by digging into data on credit support, for example, and providing more analyses of the investment or production-stimulating effects of existing and proposed policies.

# Contact **us**

We look forward to answering any questions you may have!

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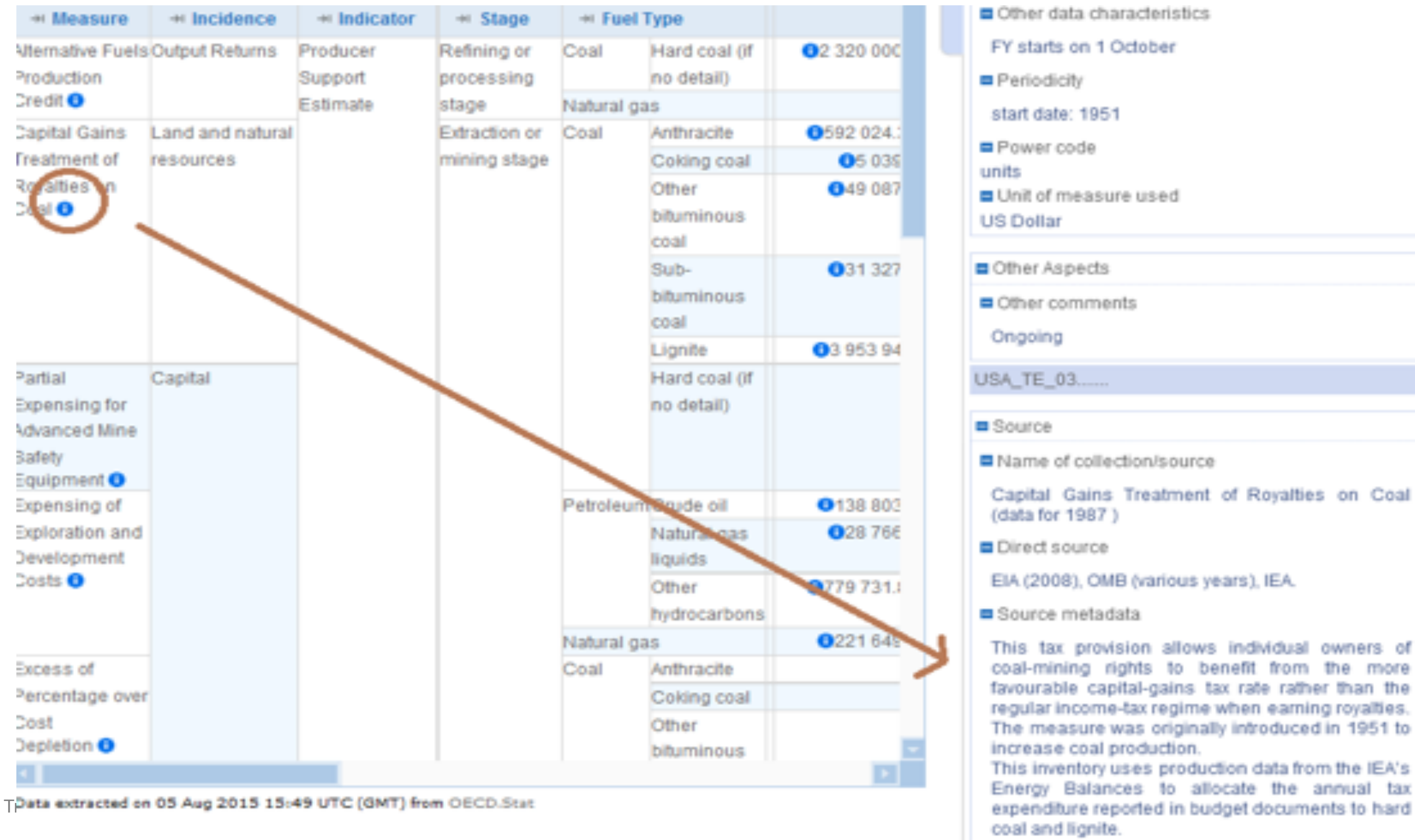
## The OECD's DotStat database on government support for fossil fuels can be accessed at: [www.oecd.org/site/tadffss/data/](www.oecd.org/site/tadffss/data/)



| Measure | Incidence | Indicator | Stage | Fuel Type | | |
|---|---|---|---|---|---|---|
| Alternative Fuels Production Credit | Output Returns | Producer Support Estimate | Refining or processing stage | Coal | Hard coal (if no detail) | 2 320 000 |
| | | | | Natural gas | | |
| Capital Gains Treatment of Royalties on Coal | Land and natural resources | | Extraction or mining stage | Coal | Anthracite | 592 024. |
| | | | | | Coking coal | 5 039 |
| | | | | | Other bituminous coal | 49 087 |
| | | | | | Sub-bituminous coal | 31 327 |
| | | | | | Lignite | 3 953 94 |
| Partial Expensing for Advanced Mine Safety Equipment | Capital | | | | Hard coal (if no detail) | |
| Expensing of Exploration and Development Costs | | | | Petroleum | Crude oil | 138 803 |
| | | | | | Natural gas liquids | 28 766 |
| | | | | | Other hydrocarbons | 779 731. |
| | | | | Natural gas | | 221 649 |
| Excess of Percentage over Cost Depletion | | | | Coal | Anthracite | |
| | | | | | Coking coal | |
| | | | | | Other bituminous | |

Data extracted on 05 Aug 2015 15:49 UTC (GMT) from OECD.Stat

Other data characteristics
FY starts on 1 October
Periodicity
start date: 1951
Power code
units
Unit of measure used
US Dollar
Other Aspects
Other comments
Ongoing
USA_TE_03......
Source
Name of collection/source
Capital Gains Treatment of Royalties on Coal (data for 1987 )
Direct source
EIA (2008), OMB (various years), IEA.
Source metadata
This tax provision allows individual owners of coal-mining rights to benefit from the more favourable capital-gains tax rate rather than the regular income-tax regime when earning royalties. The measure was originally introduced in 1951 to increase coal production.
This inventory uses production data from the IEA's Energy Balances to allocate the annual tax expenditure reported in budget documents to hard coal and lignite.