

# Energy Subsidies at the Intersection of Global Climate, Energy and Trade Governance

*Concept Note for a Workshop of the REFRACT Consortium, Brussels, 25-26 June 2014*

## Background

Subsidies for the production and consumption of energy have come to the forefront of international debates in recent years.<sup>1</sup> The issue of fossil fuel subsidies has captured the global political agenda ever since 2009, when the leaders of the G20 pledged to phase out such subsidies because they ‘encourage wasteful consumption, reduce our energy security, impede investment in clean energy sources and undermine efforts to deal with the threat of climate change’ (G20, 2009). In spite of this commitment, fossil fuel subsidies still amounted to \$550 billion in 2013, up from \$300 billion in 2009 and outmatching renewable energy subsidies by a ratio of four to one (IEA 2014). Recent insights that up to 80% of fossil-fuels must be kept underground to avoid the most catastrophic effects of climate change (McGlade and Ekins, 2015), combined with falling oil prices and a growing movement in favour of divestment away from fossil fuels, have strengthened the case for fossil fuel subsidy reform, which is expected to lead to significant cost savings as well as reductions in carbon emissions (Economist 2015; Merrill et al. 2015).

While fossil fuel subsidies may be under increasing levels of scrutiny, renewable energy subsidies – e.g. for the deployment of wind or solar technologies, or for the production of biofuels – have similarly moved to the centre of attention of policymakers and academics alike. In the context of the World Trade Organization (WTO), several disputes have arisen, with a subsidy relating to a proposed feed-in-tariff in the Canadian province Ontario being struck down by the WTO’s dispute settlement body for using a local content requirement preferring domestic producers over imports. In addition, several bilateral consultations about renewable energy measures in different countries – involving major players such as China, India, the European Union and the United States – have taken place in recent years (Lewis 2014; Kulovesi 2014).

Energy subsidies are governed by a complex set of institutions. From the perspective of climate change, energy subsidies matter as they can either impede the achievement of climate objectives (by subsidizing continued fossil fuel extraction) or facilitate the transition toward a low-carbon economy (by helping to build a renewable energy industry). Energy subsidies also matter from the perspective of trade governance: the WTO’s Agreement on Subsidies and Countervailing Measures specifies the types of subsidies that may be allowed or prohibited. Finally, energy subsidies matter from the perspective of global energy governance. Such subsidies can be used to achieve specific energy policy objectives (e.g. combating energy poverty or securing energy supply). Yet while it has become increasingly clear which institutions are relevant for addressing energy subsidies (see also Van Asselt 2014; Van de Graaf 2013), it remains unclear how the institutional complex for energy subsidies functions

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<sup>1</sup> Different definitions of ‘energy subsidies’ exist. The International Energy Agency defines them as “any government action that concerns primarily the energy sector that lowers the cost of energy production, raises the price received by energy producers or lowers the price paid by energy consumers”.

as a whole. Furthermore, while significant advances have been made in scholarship on fossil fuel subsidies and renewable energy subsidies in isolation, there is a need to link these debates to draw broader lessons for energy subsidies as a whole.

### **Aim of the workshop**

The workshop seeks to enhance understanding of global governance of energy subsidies, bringing together insights and perspectives from international relations and international law. The goal is to examine how international organizations, rules and regimes shape the policies and outcomes with regard to energy subsidies, both for fossil fuels and renewables. National-level policies towards these subsidies fall outside of the scope of this workshop. We are particularly interested in contributions that examine how the difficult trade-offs with regard to energy subsidies are dealt with, both within and across international organizations.

### **Topics and questions for the workshop**

Paper proposals for the workshop can address one or several of the questions under the following topics.

- *Mapping the institutional complex for energy subsidies*: To enhance understanding of how energy subsidies are governed, it is important to address the following questions:
  - Which institutions govern energy subsidies (including international institutions in the area of climate, energy, trade and finance)? Possible case studies include, but are not limited to, the United Nations Framework Convention on Climate Change (UNFCCC), the WTO, the IEA, the IMF, the World Bank (and other multilateral development banks), and the Energy Charter Treaty.
  - How have these institutions governed energy subsidies, and with what effects?
- *The international political economy of trade disputes related to energy subsidies*: The treatment of energy subsidies under the international trade regime raises specific questions:
  - What types of subsidies are likely to get challenged before the WTO, and why?
  - Why have renewable energy subsidies been challenged, whereas fossil fuel subsidies remain unchallenged?
  - What is needed to launch a challenge against fossil fuel subsidies?
- *Ways forward*: Calls for energy subsidy reform raise the questions about which institutions could or should play which role:
  - Where should such regulation be developed (e.g. under a new 2015 climate change agreement, the WTO, regional trade agreements (e.g. the Transnational Trade and Investment Partnership)?
  - How could this be achieved (including proposals for legal and institutional reform)?
  - And how can a productive division of labour between relevant climate, trade and energy-related institutions materialize?

### **Format of the workshop**

A selection of 3-5 papers will be presented and discussed at the workshop. Papers can be short (up to 3,000 words), but at a minimum would need to provide the main outline of the argument. At the workshop, other participants will be asked to briefly present the paper, followed by comments by the author(s) and a group discussion. One hour will be reserved for each paper.

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