Obstacles to phasing out environmentally harmful subsidies and how they can be overcome

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*Building on ‘Study supporting the phasing out of environmentally harmful subsidies’ by IEEP, IVM, Ecologic and VITO for the European Commission (2012)

EESC public hearing - ‘Creating the right incentives for the green economy’, 29 October 2013, Brussels
Introduction to the study

• EU has a long-standing commitment to removing environmentally harmful subsidies (EHS), reiterated in resource efficiency Roadmap
  ‘By 2020 EHS will be phased out, with due regard to the impact on people in need’

• Study aimed to support the Commission in implementing this call

• Outline of study:
  – Defined key types of EHS and analysed 30 examples of EHS in EU MS
  – Analysed good practice examples of EHS reform in 10 EU MS and lessons learnt
  – Practical recommendations on phasing out and reforming EHS

• Final report published in autumn 2012
Our approach to EHS

• Many definitions of EHS depending on context.

• One possible definition of an EHS is:
   ‘a result of a government action that confers an advantage on consumers or producers, in order to supplement their income or lower their costs, but in doing so, discriminates against sound environmental practices.’ [Adapted from OECD (1998 and 2005) in IEEP et al. 2007].

• This only encompasses action. In some cases inaction (e.g. lack of full cost pricing or not internalising externalities) leads to prices not reflecting environmental and social costs and hence creates implicit subsidies.

• We applied a broader definition of subsidies including where possible subsidies resulting from inaction.
Subsidies come in different shapes and forms

• **Direct transfers of funds** (e.g. coal mining subsidies);
• **Potential direct transfers** (e.g. limited liability for oil spills);
• **Provision of goods or services including specific infrastructure** (e.g. road servicing a single mine or factory);
• **Provision of general infrastructure** (e.g. a highway);
• **Income or price support** (e.g. price premiums for electricity from waste incineration);
• **Foregone government revenues from tax credits, exemptions and rebates** (e.g. from excise duty for fuels, favourable tax treatment of company cars);
• ** Preferential market access, regulatory support mechanisms and selective exemptions from government standards** (e.g. feed-in tariffs);
• **Lack of full cost pricing** (e.g. incomplete coverage of drinking water costs);
• **Absence of resource pricing** (e.g. absence of charges on rock extraction);
• **Non-internalisation of externalities** (e.g. damage to ecosystems from bottom-trawling and dredging).
## Cases examined in our study

<table>
<thead>
<tr>
<th>Sector</th>
<th>Case study</th>
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</table>
| Agriculture          | • Interpretation of eligibility criteria for CAP Pillar 1 direct payments (UK)  
                      | • Fuel duty reliefs or exemptions for agriculture (several EU MS)                                                                            |
| Climate and energy   | • Support for nuclear energy producers – limited liability, accumulation of accruals, research (DE)  
                      | • Preferential treatment of the hard coal mining industry (PL)                                                                               |
| Fisheries            | • Investments for the modernisation of fishing vessels (DK)  
                      | • Subsidies for vessel scrapping (ES)                                                                                                       |
| Food                 | • Reduced VAT rate for food (LU)                                                                                                            |
| Forestry             | • Provision of low interest loans for peatland drainage to improve forestry investments (FI – now reformed)                                 |
| Materials            | • Indirect subsidy to rock extraction (MT)                                                                                                 |
| Transport            | • Tax deductions for commuters (AU)  
                      | • Absence of road pricing for freight and passenger transport (NL)  
                      | • Company car taxation (BE, NL)                                                                                                             |
| Waste                | • Reduced environmental charge rate for waste incineration (BE – FI)  
                      | • Incomplete producer responsibility for WEEE (SI)                                                                                           |
                      | • Feed-in tariffs for the generation of energy from waste incineration and landfill gas (CZ, HU, PT)                                         |
| Water                | • Reduced VAT rate for drinking water (EL)  
                      | • Irrigation subsidies (CY, ES, IT)                                                                                                          |
                      | • Implicit subsidy to the use of nitrogen-rich fertilizers in agriculture (FR)                                                              |
EHS in EU Member States

• Our case studies indicated that EHS exist in several EU MS across different **sectors** and economic **types**

• We identified several cases of **foregone government revenue** through tax exemptions and rebates, as well as cases of **lack of full cost pricing**

• In many cases, the **objective** of the subsidy remains partially valid with some exceptions

• Our cases identified a number of problems with the **design** of the subsidy

• Impacts (**social, environmental, economic and financial**) vary across cases
## Overview of needs for reform identified

<table>
<thead>
<tr>
<th>Sector</th>
<th>Case no.</th>
<th>MS(s)</th>
<th>Objectives</th>
<th>Design</th>
<th>Social impacts</th>
<th>Enviro. impacts</th>
<th>Eco. &amp; financial impacts</th>
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</thead>
<tbody>
<tr>
<td>Agriculture</td>
<td>1</td>
<td>UK + BG, EE, SE, RO, SI</td>
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<td></td>
<td>2</td>
<td>BE, CZ, DE, EE, ES, FR, IE, CY, LV, LT, LU, HU, NL, PT, FI, SE, UK</td>
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<td>Climate change and energy</td>
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<td>DE + BE, NL, CZ, FI, FR, BG, IT, LT</td>
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<td>PL + other MS, e.g. UK, FR, LU</td>
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<tr>
<td>Fisheries</td>
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<td>DK + ES, PT, FR, IT, BE, CY, EE, PL, SE, NL, DE, FI, BG</td>
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<td></td>
<td>6</td>
<td>ES + other EU MS</td>
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<td>Food</td>
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<td>LU + most other MS except BG, DK, EE, LT, RO</td>
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<tr>
<td>Forestry</td>
<td>8</td>
<td>SI + SE, UK (now reformed)</td>
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<tr>
<td>Materials</td>
<td>9</td>
<td>MT + other MS</td>
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<tr>
<td>Transport</td>
<td>10</td>
<td>AT + several MS except EL, IE, IT, PT, ES and UK</td>
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<td>11</td>
<td>NL + several MS</td>
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<td>Waste</td>
<td>14</td>
<td>NL (IE) + NL, AT, Cw, UK, IT, ES (Catalan region), FR, EE, PL, LV</td>
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<td>SI + BG, DK, FI, FR, GR, LT, UK</td>
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<td>18</td>
<td>PT</td>
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<tr>
<td>Water</td>
<td>19</td>
<td>EL + several MS except BG, DK, EE, LV, LT, HU, RO, SK, FI, SE</td>
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<td>FR</td>
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- **Green** indicates there are no particular concerns relating to this aspect of the subsidy.
- **Yellow** indicates there are some concerns with this particular aspect of the subsidy and further attention is useful.
- **Red** indicates there are significant concerns with this particular aspect of the subsidy and further attention/reform is needed.
Reform is possible

Examples of **successful reform in EU**:  
- Reform of commuter subsides in Netherlands  
- Charges for aggregate materials extraction in UK  
- Pay-as-you-throw schemes in certain municipalities in Italy  
- Reform of water pricing in Czech Republic  
- Road charging in Austria  
- Reform of car registration tax in Flanders  
- ...

And **beyond**...  
- Reform of fisheries subsidies in Norway  
- Road infrastructure charging in Switzerland  
- Reform of agriculture and fisheries subsidies in New Zealand  
- ...
Obstacles to reform and how they can be overcome

• Strength of special interests and rent-seeking behaviour
• False perceptions and fear of change
• Lack of political will, competitiveness and social concerns
• Lack of transparency, information and awareness
• Legal, administrative and technological constraints
• Culture of ‘entitlement’

• Increase transparency
• ‘Debunk’ popular beliefs
• Reduce relative lobbying power of special interest groups
• Recognise other measures available to meet objectives
• Learn from innovative schemes
• Create and seize windows of opportunity
• Introduce transitional measures
• Proper design and governance of existing and new subsidies
Taking EHS reform forward
Inventories to increase transparency

Use OECD (or similar) tools to:

- Establish **transparent** and **comprehensive inventories** of subsidies
- Assess **effectiveness, cost-efficiency and impacts** of subsidies
- Assess **benefits and costs of reform** – environmental, money saved/freed, social impacts, innovation etc.
Need an inventory and assessment of subsidies to identify...

the “good”
still relevant, targeted, effective, positive impacts, few negative effects

the “bad”
no longer relevant, waste of money, important negative effects

the “ugly”
badly designed, e.g. inefficient, badly targeted, potential for negative effects

To understand which subsidies are which.
Where benefits of reform might lie.
Develop a roadmap for EHS reform.

Source: building on Sumaila and Pauly 2007
Subsidy reform flowchart

Phase 0: Screening of sectors / impacts
1) What are the threats to the environment and how do these relate to key economic activities / sectors?
   - 2) Are there incentives related to these sectors / activities?
   - 3) Does the incentive lead to potential direct / indirect biodiversity impacts? *(if positive inform Q10)*
   - 4) Are these potential impacts limited by existing ‘policy filters’?
   - Yes: negative impacts
   - No
   - Can sectors / activities by identified which are harmful to the environment?
     - No
     - Yes
   - Has an incentive been identified which may be harmful to biodiversity?
     - No
     - Yes

Phase 1: Screening of incentives
- 5) Does the incentive fulfil its objectives and are these still valid?
- 6) Does the incentive lead to socio-economic issues?
- 7) Are there more benign alternatives?
- 8) Are there pressures to reform?

Phase 2: Potential for reform
- 9) Are there suitable reform option(s)?
- 10) What are the expected costs and benefits (economic, environmental, social)?
- 11) Are there obstacles to reform?
- 12) Is the reform understandable, practical and enforceable?

Phase 3: Reform scenarios
- 13) Is there a window of opportunity for reform or can one be created?
- 14) Is there a (potential) policy champion to drive reform?
- 15) Is there public/political support to reform or can it be developed?

Phase 4: Opportunities for action
- 16) Is there a (potential) policy champion to drive reform?
- 17) Is there public/political support to reform or can it be developed?
- 18) Is the removal or reform of the incentive timely & should it be prioritised?

No need to currently take further action – regular review is however advised

Develop conditions for success and plan for future reform

Prioritise reform / removal of the incentive harmful to biodiversity

Source: adapted from ten Brink et al. (2012), building on Valsecchi et al. (2009) and Lehmann et al. (2011)
Tools to support EHS reform

**RELEVANT QUESTIONS IN POLICY MAKING**

- Is the subsidy *likely to have a significant impact on the environment*?
- Will the EHS *reform* bring *environmental benefits*?
- *Which EHS* would bring the most benefit from reform and so should be *prioritised*?
- What EHS *reform* will make people *better off*?

**OECD TOOLS**

- Quick scan
- Checklist
- Integrated assessment framework
Roadmaps for reform and reporting on progress

• Develop **prioritized action plans** for subsidy removal/reform
• Set up **cross-departmental working group/task force** to carry reform forward and ensure momentum
• Carefully **design, manage and implement** process
• Make reform part of a **broader package of instruments and policies**
• Establish clear and rigorous **good governance practices** for new or reformed subsidies
• **Regular and transparent reporting** on progress within European Semester and separate national reporting
Who does what?

• The way forward requires **different actions at different levels** (EU, MS, regional and local)

• Ideally action should be **coordinated** across different levels to maximize **synergies**, help **speed up pace** of reform and **build support** for process from a range of actors including wider public

• **Role of MS?** - taking forward actions, learning from neighbours etc.
• **Role of EC?** - engagement, support MS action, lead by example etc.
• **Role of other actors?** e.g. EESC, COR, OECD, CBD, NGOs, academia etc.
## A roadmap for action

|-------|-----------------------------------------------------------------------------------|---------------------------------------------------------------------|-------------------------------------|
| **MS** | - Identify most significant EHS and develop inventories,  
- Develop roadmaps for reform of subsidies of national interest,  
- Report on subsidies and reform efforts | - Phase out EHS and annual reporting,  
- Adopt good governance principles for remaining/ new subsidies,  
- Establish cross-departmental working groups/task forces to guide process. | - EHS phased out,  
- CBD commitments met,  
- EU climate & energy targets met,  
- Good governance principles for subsidies the norm. |
| **EC** | - Engage and support MS efforts,  
- Make use of European Semester,  
- Lead by example,  
- Revise criteria for EU investment decisions,  
- Identify restrictions and loopholes at EU level that prevent EHS reform,  
- Support capacity building and knowledge development. | - Develop roadmaps for reform in key sectors and set up inter-DG working groups,  
- Amend or revise restrictions and loopholes at EU level,  
- Explore options to support reform,  
- Develop common template to facilitate subsidy reporting to G20, WTO, OECD etc.,  
- Work with international partners & organisations. | - Meet CBD commitments,  
- Meet EU 2020 commitments,  
- Good governance principles for subsidies the norm. |
# A roadmap for action ctd.

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<tbody>
<tr>
<td>Other actors</td>
<td>- Increase transparency and information on EHS, - Exchange information on EHS and best practices in reform, - Disseminate information on EHS to the public.</td>
<td>- Keep spotlight on issue and maintain pressure on EU and MS to reform EHS, - Develop partnerships or platforms bringing together stakeholders (including industry), - Engage public, - Monitor and assess compliance on reform and assess quality of data released.</td>
<td>- Continue monitoring and assessment of compliance, - Keep up pressure, - Continue to engage with stakeholders.</td>
</tr>
<tr>
<td>Windows of opportunity</td>
<td>- European Semester, - Fiscal consolidation, - Follow-up to Rio+20 Conference, - CBD COP12 (PyeongChang), - UNFCCC COP19 (Warsaw), - EU State Aid Modernisation initiative, - EU review of legislation on reduced VAT rates</td>
<td>- Other CBD and UNFCCC COPs, G20 meetings, - G77, - National budgets, - MTR of 2014-2020 MFF and preparations for post-2020 MFF, - EU Regulation on National Environmental Economic Accounts, UN System of Environmental and Economic Accounting (SEEA)</td>
<td>- Target date for CBD commitment, - Target date for milestone in resource efficiency Roadmap, - Target date for EU 20-20-20 climate and energy objectives.</td>
</tr>
</tbody>
</table>
Thank you for your attention

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Further reading


