



Reforming environmentally harmful subsidies in Europe: The way forward

Sirini Withana*, Senior Policy Analyst, IEEP

Seminar on 'Harmful subsidies as barriers to sustainable development'
24 February 2014
Helsinki

**Building on 'Study supporting the phasing out of environmentally harmful subsidies'
by IEEP, IVM, Ecologic and VITO for the European Commission (2012) and forthcoming book 'Paying the polluter -
Environmentally Harmful Subsidies and their Reform (2014) Oosterhuis and ten Brink eds. Edward Elgar.*

Growing awareness and commitments to EHS reform

Global:

- **CBD COP 10** target to eliminate or phase out 'incentives including subsidies harmful to biodiversity' by 2020
- **G20 commitment** to rationalise and phase out 'inefficient fossil fuel subsidies' over the medium term
- **Rio+20** reiteration of commitments on fisheries, fossil fuels, trade distorting subsidies

EU:

- **Resource Efficiency Roadmap** milestone to phase out EHS by 2020, taking into account the impact on people in need
- **EU legislation** – e.g. WFD, Eurovignette

National / regional / local:

- At **national level**, e.g. Europe, sub-Saharan Africa, Asia etc.
- At **regional and / or local level**, e.g. road pricing, municipal waste collection, water charges etc.

Rhetoric versus reality

Despite commitments to reform, progress has been slow and the **overall level of global subsidies remains substantial**

Sector	Region	Estimated size	Source
Agriculture	OECD	US\$252 billion in 2011	OECD 2012
Energy	Global	USD480 billion in 2011	IEA 2013
Biofuels	Global	US\$19 billion/year	IEA 2013
Fisheries	Worldwide	USD25-29 billion/year	Sumaila et al., 2010
Transport	Worldwide	USD 238-306 billion/year, of which EHS ~ USD173–233 billion/year	Kjellingbro and Skotte 2005
Water	Worldwide	USD67 billion/year, of which EHS ~ US\$50 billion/year	Myers & Kent 2002

Sources: Oosterhuis F. and ten Brink P. eds. (2014 forthcoming) Paying the Polluter - Environmentally Harmful Subsidies and their Reform, Edward Elgar Publishing and TEEB - The Economics of Ecosystems and Biodiversity for National and International policy makers, (2011), Chapter 6

Opportunities and potential benefits from EHS reform

- **Balancing public budgets** - enabling governments to divert budget to other areas and/or reduce debt
- Encourage **more efficient use of resources**, correct market signals
- Reduce **(unintended) negative impacts** – e.g. on health, environment
- Increase **competitiveness**
- Stimulate **innovation and transition to a circular, green economy**
- **Long-term employment prospects**
- **(Cost)-effective** means of meeting objectives
- Strengthen **good governance, policy coherence & public accountability**

The issue of definitions

- Many **definitions of EHS** depending on context. One possible definition 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 **in-action** leads to prices not reflecting environmental and social costs and hence can be considered **implicit subsidies**.
- While a **broader definition** of subsidies (including full cost pricing and internalisation of externalities) is operationally difficult, it is important to recognise that such subsidies exist and can be quite significant in several sectors.

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** (e.g. 'free' litter cleaning services at large events);
- **Provision of general infrastructure** (e.g. a highway, free parking);
- **Income or price support** (e.g. price premiums for electricity from waste incineration);
- **Foregone government revenues** (e.g. preferential tax treatments such as reduced excise duty for diesel used in agriculture, favourable taxation of company cars);
- **Preferential treatment** (e.g. market access for certain groups, exemptions from standards);
- **Lack of full cost pricing** (e.g. incomplete coverage of drinking water costs);
- **Absence of resource pricing** (e.g. free access to fish stocks and raw materials);
- **Non-internalisation of externalities** (e.g. uncompensated damage to ecosystems).

EHS in EU Member States

- 30 cases examined in our 2012 study 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
- The cases identified a number of problems with the **design** of the subsidy
- Impacts (**social, environmental, economic and financial**) vary

Overview of needs for reform identified

Sector	Case no.	MS(s)	Objectives	Design	Social impacts	Enviro. impacts	Eco. & financial impacts
Agriculture	1	UK + BG, EE, SE, RO, SI					
	2	BE, CZ, DE, EE, ES, FR, IE, CY, LV, LT, LU, HU, NL, PT, FI, SE, UK					
Climate change and energy	3	DE + BE, NL, CZ, FI, FR, BG, IT, LT					
	4	PL + other MS, e.g. UK, FR, LU					
Fisheries	5	DK + ES, PT, FR, IT, BE, CY, EE, PL, SE, NL, DE, FI, BG					
	6	ES + other EU MS					
Food	7	LU + most other MS except BG, DK, EE, LT, RO					
Forestry	8	FI + SE, UK (now reformed)					
Materials	9	MT + other MS					
Transport	10	AT + several MS except EL, IE, IT, PT, ES and UK					
	11	NL + several MS					
	12	BE					
	13	NL					
Waste	14	BE (FI) + NL, AT, DK, UK, IT, IE, ES (Catalan region), FR, EE, PL, LV					
	15	SI + BG, DK, FI, FR, GR, LT, UK					
	16	CZ					
	17	HU					
	18	PT					
Water	19	EL + several MS except BG, DK, EE, LV, LT, HU, RO, SK, FI, SE					
	20	CY					
	21	ES					
	22	IT					
	23	FR					

There are no particular concerns relating to this aspect of the subsidy.

There are some concerns with this particular aspect of the subsidy and further attention is useful.

There are significant concerns with this particular aspect of the subsidy and further attention/reform is needed.

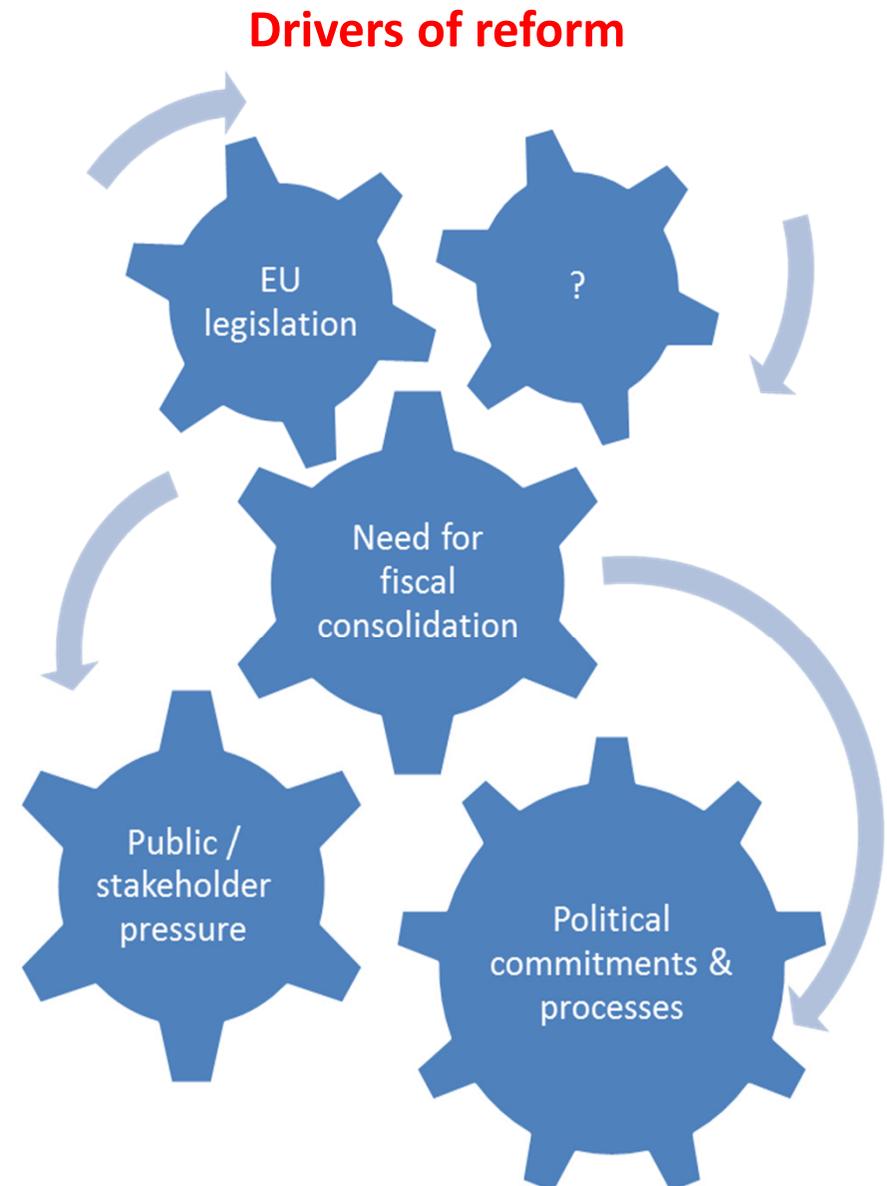
Reform is possible

Examples of successful reform in EU:

- Reform of commuter subsidies 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
- ...

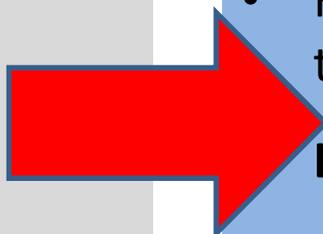
And beyond...

- 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

Take account of wider policy context including benefits and trade-offs
(environmental, economic, social)

Taking EHS reform forward

Need an inventory and assessment 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

Source: building on Sumaila and Pauly 2007



To understand which subsidies are which.

Where benefits of reform might lie.

Develop a roadmap for EHS reform.

Developing transparent inventories

Use OECD (or similar) tools to:

- Establish **transparent** and **comprehensive inventories** of subsidies
- Highlight **effectiveness, efficiency & impacts** of existing subsidies
- Identify and communicate **benefits and costs of reform**
- **Approach:**
 - **Holistic** – cover all areas and sectors
 - **Sectoral** – focus on one sector (e.g. energy, transport)
 - **Thematic** – focus on one environmental issue (e.g. biodiversity)
 - **Respond to a legislative requirement or commitment** – e.g. EU, G20

**Common approach would be useful, but risks protracted debates and delays.
A pragmatic approach in short-medium term is a bottom-up, step-by-step process**

Efforts to identify and assess EHS already underway...

At national level:

- Reports published in *Germany, France, Finland and Sweden*
- Inventory of environmentally harmful and environmentally friendly subsidies being developed in *Flanders*.
- Level of subsidies assessed and linked to European System of Accounts (ESA) by Statistics *Austria*.

At EU level:

- *European Semester* process monitors and assesses MS progress on various issues including EHS reform
- *Regulation on European Environmental Accounts* could include module on 'environmentally related transfers (subsidies)'

At international level:

- *OECD* work (e.g. inventory of estimated budgetary support and tax expenditures for fossil fuels)
- *CBD Secretariat* multi-country reporting on incentives
- *Global and regional assessments* (e.g. on fisheries subsidies, fossil fuels subsidies)

Focus on identified priority areas

- To make task more manageable, focus on a **select number of priority subsidies**
- **Gradually expand approach to other areas** as methodology develops and information base expands
- For example, **initial efforts can focus** on areas recognised as having a significant harmful impact and for which data / methodology for assessment is available (e.g. fossil fuel subsidies, company car taxation, incentives that adversely affect biodiversity)

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?

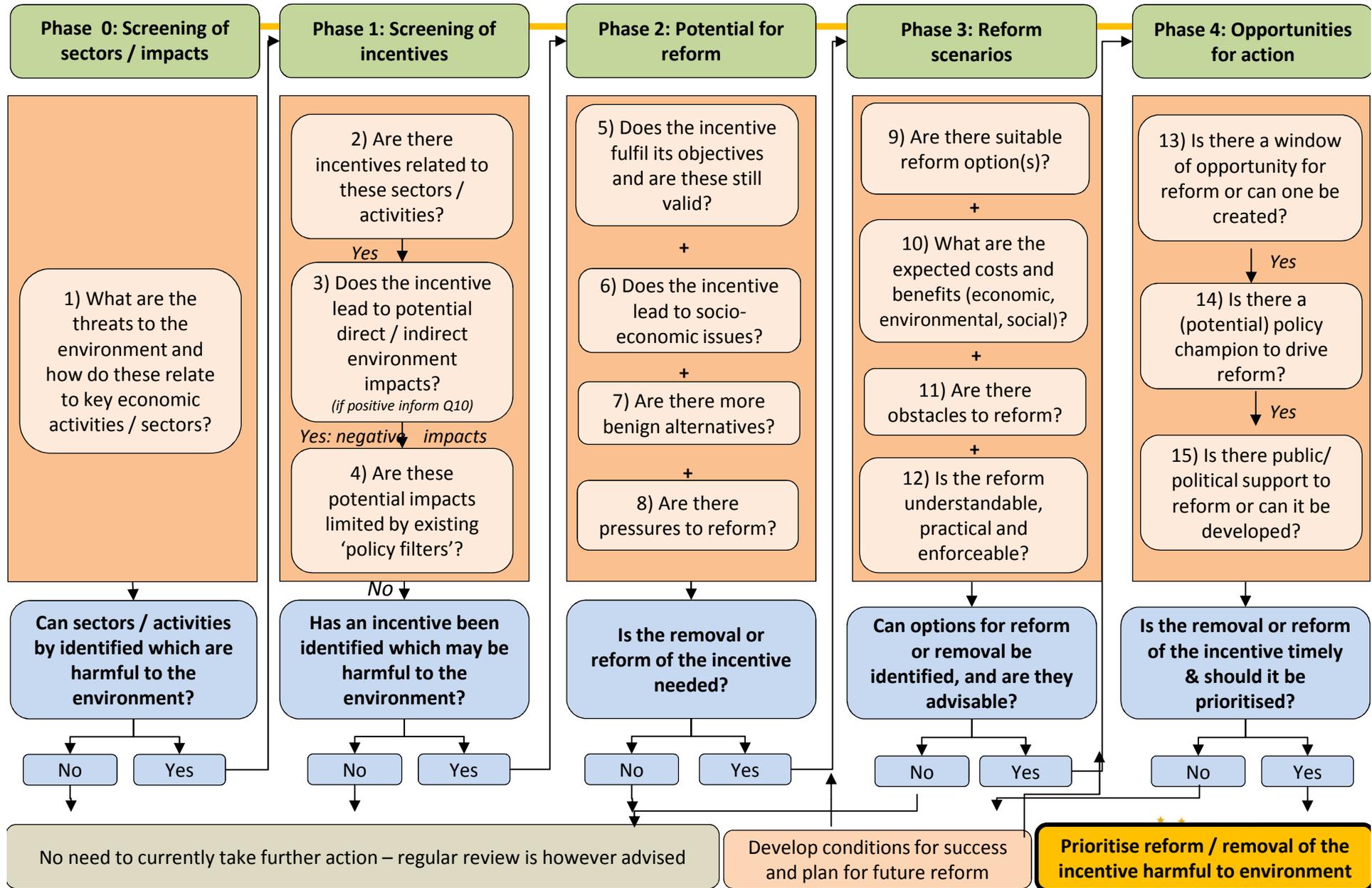
OECD TOOLS

Quick scan

Checklist

Integrated assessment framework

Subsidy reform flowchart



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

Roadmaps for reform

- 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?** OECD, CBD, IMF, NGOs, institutes, academia, business etc.



Multi-level governance

A roadmap for action: Member States

<p><u>2014-2015</u> <i>Mapping the subsidies landscape, understanding impacts and planning reform</i></p>	<p><u>2016 - 2019</u> <i>Implementation of EHS reform: Transition to good governance</i></p>	<p><u>2020 and beyond</u> <i>Reaching objectives</i></p>
<ul style="list-style-type: none"> - Identify most significant EHS and develop inventories, - Develop roadmaps for reform of subsidies of national interest, - Report on subsidies and reform efforts 	<ul style="list-style-type: none"> - Phase out EHS - Annual reporting, - Adopt good governance principles for remaining/ new subsidies, - Establish cross-departmental working groups/task forces to guide process. 	<ul style="list-style-type: none"> - EHS phased out, - CBD commitments met, - EU 20-20-20 targets met, - Good governance principles for subsidies the norm.

A roadmap for action: European Commission

<u>2014-2015</u> <i>Mapping the subsidies landscape, understanding impacts and planning reform</i>	<u>2016 - 2019</u> Implementation of EHS reform: Transition to good governance	<u>2020 and beyond</u> <i>Reaching objectives</i>
<ul style="list-style-type: none"> - Engage & support MS efforts, - Use 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. 	<ul style="list-style-type: none"> - Develop roadmaps for reform in key sectors - Set up inter-DG working groups, - Amend or revise restrictions and loopholes at EU level, - Develop common template to facilitate subsidy reporting to G20, WTO, OECD etc., - Work with international partners & organisations. 	<ul style="list-style-type: none"> - CBD commitments met - EU 20-20-20 targets met - Good governance principles for subsidies the norm.

A roadmap for action: Other actors

<p><u>2014-2015</u> <i>Mapping the subsidies landscape, understanding impacts and planning reform</i></p>	<p><u>2016 - 2019</u> <i>Implementation of EHS reform: Transition to good governance</i></p>	<p><u>2020 and beyond</u> <i>Reaching objectives</i></p>
<ul style="list-style-type: none"> - Increase transparency and information on EHS, - Exchange information on EHS and best practices in reform, - Disseminate information on EHS to the public. 	<ul style="list-style-type: none"> - 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. 	<ul style="list-style-type: none"> - Continue monitoring and assessment, - Keep up pressure, - Continue to engage with stakeholders.

Identify windows of opportunity

<u>2014-2015</u>	<u>2016 - 2019</u>	<u>2020 and beyond</u>
<ul style="list-style-type: none"> - European Semester, - Fiscal consolidation, - Follow-up to Rio+20 Conference, - CBD COP12 (PyeongChang), - EU State Aid Modernisation, - EU review of legislation on reduced VAT rates 	<ul style="list-style-type: none"> - Other CBD & UNFCCC COPs, - G20 meetings, - G77, - National budgets, - MTR of 2014-2020 MFF, preparations for post-2020 MFF, - EU Regulation on National Environmental Economic Accounts, - UN System of Environmental and Economic Accounting (SEEA) 	<ul style="list-style-type: none"> - Target date for CBD commitment, - Target date for milestone in resource efficiency Roadmap, - Target date for EU 20-20-20 climate and energy objectives
<p>What are upcoming windows of opportunity in Finland?</p>		

The need for change

- **Growing political response and commitment** to action
- **Information base on subsidies & their effects** has developed
- Growing **public awareness of needs & benefits** of reform
- **New tools developed** and interesting initiatives underway

- However subsidy reform **still at an early stage**
- Efforts need to be **strengthened and accelerated**
- **National action** can catalyse efforts more widely
- Help **re-align today's incentives with tomorrow's priorities.**

Thank you for your attention

Sirini Withana: swithana@ieep.eu

With thanks to the team at IEEP, IVM, Ecologic and VITO involved in the 'Study supporting the phasing out of environmentally harmful subsidies' for the European Commission (2012) and contributors to the forthcoming book 'Paying the polluter - Environmentally Harmful Subsidies and their Reform (2014) Oosterhuis and ten Brink eds. Edward Elgar.

London Office

11 Belgrave Road,
IEEP Offices, Floor 3
London SW1V 1RB
Tel: +44 (0) 20 7799 2244
Fax: +44 (0) 20 7799 2600

www.ieep.eu

 [@IEEP_eu](https://twitter.com/IEEP_eu)

Brussels Office

Quai au Foin, 55
Brussels
1000
Tel: +32 (0) 2738 7482
Fax: +32 (0) 2732 4004

Further reading

- **Study supporting the phasing out of environmentally harmful subsidies** (2012). A study for DG Environment. <http://www.ieep.eu/publications/2012/12/reforming-environmentally-harmful-subsidies-for-a-resource-efficient-europe>
- **Subsidies met impact op het milieu - Methodologie, inventarisering en cases (Subsidies with an impact on the environment - methodology, inventory and case studies)** (2013). A study for Vlaamse overheid, Departement Leefmilieu, Natuur en Energie. http://www.ieep.eu/assets/1229/Final_report_-_Subsidies_with_an_impact_on_the_environment.pdf
- **Incentive Measures and Biodiversity – A Rapid Review and Guidance Development. Volume 3: Guidance to identify and address incentives which are harmful to biodiversity** (2012). A study for DEFRA. http://www.ieep.eu/assets/952/Incentive_Measures_and_Biodiversity_-_A_Rapid_Review_and_Guidance_Development_Vol3.pdf
- **Environmentally Harmful Subsidies: Identification and Assessment** (2009). A study for DG Environment. <http://www.ieep.eu/publications/2009/11/environmentally-harmful-subsidies-ehs-identification-and-assessment-full-report>
- **Environmentally-harmful subsidies** (2007). A study for DG Environment <http://www.ieep.eu/publications/2007/04/reforming-environmentally-harmful-subsidies--713>
- **New book! Paying the Polluter - Environmentally Harmful Subsidies and their Reform** (2014 forthcoming). Oosterhuis F. H. and ten Brink P. eds. Edward Elgar. <http://www.edelgar.co.uk/PDFs/WebCats/EnvironmentUK.pdf>