

# Report on the OECD workshop Subsidy reform and sustainable development

(Helsinki, 20-21 June 2006)

## *Antecedents*

OECD is the leading competent international organization dealing with the issue of subsidies. In 2001, upon the request of ministers, the Secretariat decided to pay a special attention to environmental harmful subsidies.

- During 1998-99 the OECD looked at the costs and benefits of subsidies, and developed a “quick scan” approach to identify those likely to have an adverse effect on the environment and show little positive gain in terms of their stated objectives, such as employment and income.
- Paris, November 2002: the first workshop on environmentally harmful subsidies (EHS). It made categories of EHS and developed a “checklist” to identify subsidies whose removal would benefit the environment. It focussed on how subsidy reform would affect the decisions of consumers and producers and the linkages between those decisions and the environment.<sup>1</sup>
- Paris, November 2003: the second workshop continued to develop a framework for defining, classifying and measuring subsidies across sectors. It discussed tensions and conflicts of both political and economic character impeding to realize the reform.<sup>2</sup>
- Paris, October 2005: the third workshop deepened understanding of the political economy of subsidy reform. Topics: main drivers and main obstacles of subsidy reform, winners and losers, win-win and lose-lose situations, single measures versus reform packages.<sup>3</sup>

## *Helsinki purpose*

The purpose was to provide input to analytical and policy dimensions of the OECD horizontal work programme on SD; to assess integrated “whole-of-government” approaches to reforming subsidies, including analytical frameworks, governance aspects, and transition needs.

## *Most important statements*

Good governance and sound public management, firm pursue of public interest are key preconditions for successful subsidy reform. On the national level, reforming EHS requires co-operation among the different branches of government, the private sector and civil society. The nature of transitional measures established and the mix of stakeholders involved are the most important decision-making aspects.

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<sup>1</sup> See [www.oecd.org/agr/env](http://www.oecd.org/agr/env) and *Environmentally Harmful Subsidies: Policy Issues and Challenges*, OECD, Paris 2003.

<sup>2</sup> *Environmentally Harmful Subsidies: Challenges for Reform*, OECD, Paris 2005.

<sup>3</sup> *Subsidy Reform and Sustainable Development: Economic, Environmental and Social Aspects*, OECD, Paris 2006.

Removing EHS is something like taking a bone from a dog (Anthony Cox). Therefore, building a sufficiently big political coalition and “buying out” (or soften) the opposition are needed. Status quo bias is often very strong because of uncertainty about winners and losers and there is a substantial lag before benefits of reform are felt. Possible strategies of subsidy reform are: packaging of reforms, focus on burden sharing, “protect people not jobs”, pacing (long transition periods). Impact assessment of subsidy reform in the short run should reveal whether expected effects were realized. But in the long run the of the desired effect should be examined.

Social dialogue is essential, and transition support measures should be introduced. To tackle social issues different solutions can be implemented: reliance on existing social assistance, fiddling with the reform, pursuing active labour market programmes, facilitating industry and infrastructure development, creating conditions for adjustment. Adjustment possibilities for affected industries also should be offered (possibility to exit and investment in other fields; improving competitiveness for those remaining.)

On the international level, integration of environmental considerations into multilateral trade liberalisation is essential. The endeavours of WTO and EU single market to even trade fields and combat subsidies, coupled with UNEP activity may be helpful, but these organisations equally fight against all kinds of subsidies, including the environmentally beneficial ones.

### ***Interesting information***

It was interesting to know that the amount of fiscal subsidies on energy is \$37-64 billion per year in the US and it will be increased by \$90-120 billion over the next 10 years. These sums cover mostly capacity expansions in the nuclear sector<sup>4</sup>, development of ethanol and biodiesel production but insufficient attention is paid to the least-cost carbon reduction strategies. Energy policy is still supply side driven in the US. (Koplow)

58% of Finnish forests is owned by 400.000 small-scale family forestries. As a result, massive state subsidization is needed to avoid deforestation (above the increment removal). Its yearly amount is €63 million. (Strange: Finland constructs a new nuclear plant instead of using its immense wood reserves for energy purposes.) (Lähteenoja)

Information on average costs caused by road traffic is not enough, measuring marginal costs is indispensable. (Some examples, in €/vkm: Belgium, rural area, petrol cars, 0,22, diesel cars 0,45. Belgium, Brussels petrol cars 0,84, diesel cars 3,31. Greece, rural area, petrol cars, 0,26, diesel cars 0,47. Greece, Athens, petrol cars 1,53, diesel cars 6,52.) Advanced information technologies (GSM, GPS) make possible measuring these kinds of cost differences and others (e.g. caused by speed and weight differences.) (Lindberg)

### ***Remarks***

This workshop has already not dealt with issues of classifying and identifying EHS, which was so much characteristic for former ones. It pragmatically focussed on the *implementation* of subsidy reform. However, most of the recommendations seemed to be evident; these should be the concerns and concrete policy measures of a government embarking upon the implementation of a subsidy reform.

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<sup>4</sup> The subsidy spent on energy, produced in the American nuclear power plants is in the range of 66-108% of the kWh price.

Environmentally benign subsidies have also been discussed (biofuels), although on the margin. True, in many cases these subsidies can be discussed, but a strict position should be taken: environmentally harmful subsidies should be removed, while benign ones should be given. In case of uncertainty harmful activities, products (e.g. fossil fuels) should be taxed instead of environment friendly ones subsidized (biofuels).

The heavy subsidisation of biofuels by the rich countries may make them more competitive vis-à-vis food production, causing an adverse effect on world food situation and the alimentionation of the poor.

The linkages of policies of the OECD and WTO concerning subsidies are evident. On the one hand, subsidies are disciplined by WTO because they can distort international trade. On the other hand, OECD attacks environmentally harmful subsidies. These two aspirations could be joined in a successful policy. However, WTO equally attacks environmentally benign subsidies and this could be a point of major controversy. In the “2005 Annual Report on SD Work in the OECD” this relation is mentioned. It would be desirable if a common policy by the two organizations was started to be developed. The EU Commission will develop a detailed EHS reform programme in 2008.

Subsidy withdrawals by the rich countries – given that world markets are liberalized – may benefit poor countries making their exports more competitive. (This was the topic of the last WTO round negotiations in Doha.)

***Presentations:***

- *Stephan Barg* (International Institute for SD): Assessing the Benefits of Subsidy Reform from a SD Perspective – Economic, Environmental and Social Aspects
  - *Pentti Lähteenoja* (Finnish Ministry of Agriculture and Forestry): Sustainability Effects of Subsidies to Forestry
  - *Chris Nash* (University of Leeds): Sustainability Effects of Subsidies to Transport
  - *Anthony Cox* (OECD): Easing Subsidy Reform for Producers, Consumers and Communities: Social Issues and Transition Supports
  - *Janet Dwyer* (Gloucestershire University): Transitional Issues in Subsidy Reform in Agriculture
  - *Petri Lehto* (Finnish Ministry of Trade and Industry): Converting Subsidies to R&D Supports in Finnish Manufacturing
  - *Anja von Moltke* (UNEP): Whole-of-Government Decision-Making for Subsidy Reform: Institutions, Stakeholders, Processes
  - *Doug Koplrow* (Earth Track): Integrated Approaches to Reforming Subsidies in the Energy Sector
  - *James Brown* (Institute for European Environmental Policy): Integrated Approaches to Reforming Subsidies in Fisheries: the EU Case
- Discussants: Blair Comley (Australia), Véronique Deli (Mexico), Keith Mason (US)  
Chair: Lori Ridgeway, head of OECD Fisheries Committee  
Attended by: Kiyoo Akasaka, OECD Deputy Secretary-General  
EEB participation: John Hontelez and Károly Kiss.

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