



## **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)*

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# Introduction to the study

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- 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

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- 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

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- **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

Sector	Case study
Agriculture	<ul style="list-style-type: none"> <li>• Interpretation of eligibility criteria for CAP Pillar 1 direct payments (UK)</li> <li>• Fuel duty reliefs or exemptions for agriculture (several EU MS)</li> </ul>
Climate and energy	<ul style="list-style-type: none"> <li>• Support for nuclear energy producers – limited liability, accumulation of accruals, research (DE)</li> <li>• Preferential treatment of the hard coal mining industry (PL)</li> </ul>
Fisheries	<ul style="list-style-type: none"> <li>• Investments for the modernisation of fishing vessels (DK)</li> <li>• Subsidies for vessel scrapping (ES)</li> </ul>
Food	<ul style="list-style-type: none"> <li>• Reduced VAT rate for food (LU)</li> </ul>
Forestry	<ul style="list-style-type: none"> <li>• Provision of low interest loans for peatland drainage to improve forestry investments (FI – now reformed)</li> </ul>
Materials	<ul style="list-style-type: none"> <li>• Indirect subsidy to rock extraction (MT)</li> </ul>
Transport	<ul style="list-style-type: none"> <li>• Tax deductions for commuters (AU)</li> <li>• Absence of road pricing for freight and passenger transport (NL)</li> <li>• Company car taxation (BE, NL)</li> </ul>
Waste	<ul style="list-style-type: none"> <li>• Reduced environmental charge rate for waste incineration (BE – FI)</li> <li>• Incomplete producer responsibility for WEEE (SI)</li> <li>• Feed-in tariffs for the generation of energy from waste incineration and landfill gas (CZ, HU, PT)</li> </ul>
Water	<ul style="list-style-type: none"> <li>• Reduced VAT rate for drinking water (EL)</li> <li>• Irrigation subsidies (CY, ES, IT)</li> <li>• Implicit subsidy to the use of nitrogen-rich fertilizers in agriculture (FR)</li> </ul>

# EHS in EU Member States

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- 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

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.

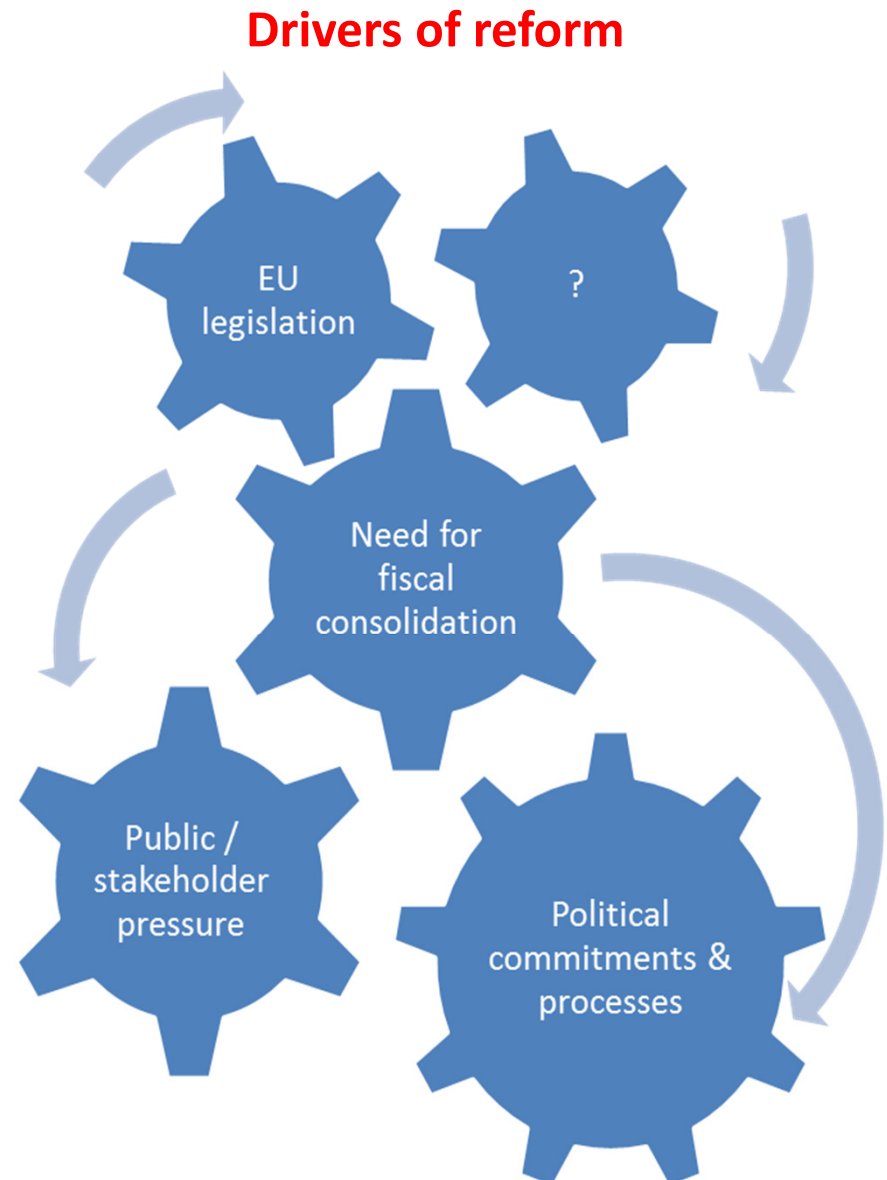
# Reform is possible

## 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...

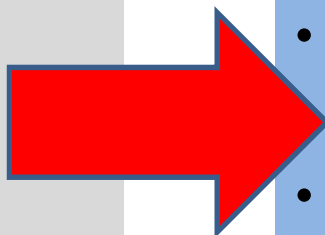
- Reform of fisheries subsidies in Norway
- Road infrastructure charging in Switzerland
- Reform of agriculture and fisheries subsidies in New Zealand
- ...





# 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

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# Taking EHS reform forward

# Inventories to increase transparency

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*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

Source: building on Sumaila and Pauly 2007

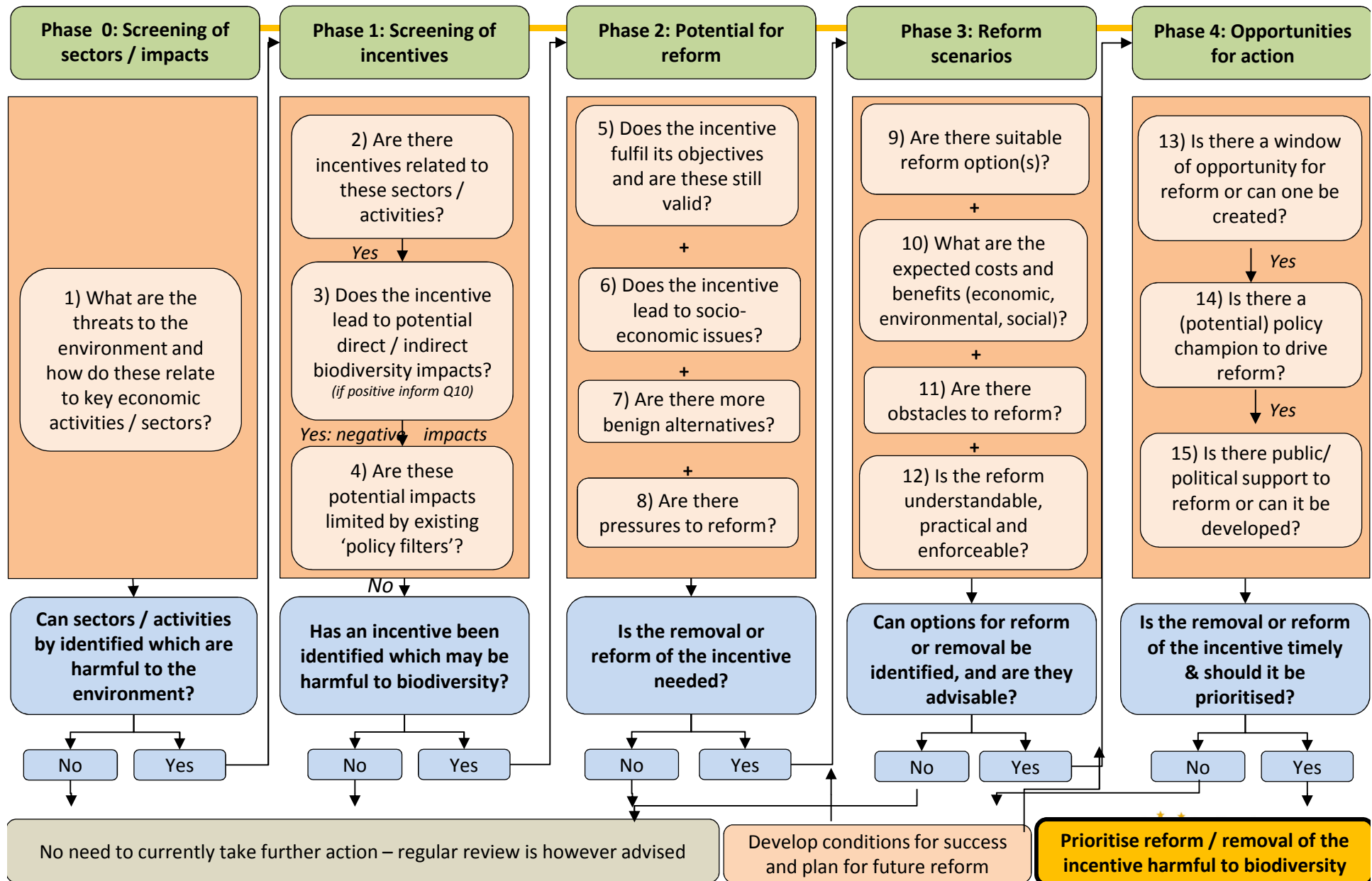


**To understand which subsidies are which.**

**Where benefits of reform might lie.**

**Develop a roadmap for EHS reform.**

# Subsidy reform flowchart



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

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- 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?

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- 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

Actor	<u>2013 – 2014</u> Mapping the subsidies landscape, understanding impacts and planning reform	<u>2015 - 2019</u> Implementation of EHS reform: Transition to good governance	<u>2020 and beyond</u> Reaching objectives
MS	<ul style="list-style-type: none"> <li>- Identify most significant EHS and develop inventories,</li> <li>- Develop roadmaps for reform of subsidies of national interest,</li> <li>- Report on subsidies and reform efforts</li> </ul>	<ul style="list-style-type: none"> <li>- Phase out EHS and annual reporting,</li> <li>- Adopt good governance principles for remaining/ new subsidies,</li> <li>- Establish cross-departmental working groups/task forces to guide process.</li> </ul>	<ul style="list-style-type: none"> <li>- EHS phased out,</li> <li>- CBD commitments met,</li> <li>- EU climate &amp; energy targets met,</li> <li>- Good governance principles for subsidies the norm.</li> </ul>
EC	<ul style="list-style-type: none"> <li>- Engage and support MS efforts,</li> <li>- Make use of European Semester,</li> <li>- Lead by example,</li> <li>- Revise criteria for EU investment decisions,</li> <li>- Identify restrictions and loopholes at EU level that prevent EHS reform,</li> <li>- Support capacity building and knowledge development.</li> </ul>	<ul style="list-style-type: none"> <li>- Develop roadmaps for reform in key sectors and set up inter-DG working groups,</li> <li>- Amend or revise restrictions and loopholes at EU level,</li> <li>- Explore options to support reform,</li> <li>- Develop common template to facilitate subsidy reporting to G20, WTO, OECD etc.,</li> <li>- Work with international partners &amp; organisations.</li> </ul>	<ul style="list-style-type: none"> <li>- Meet CBD commitments,</li> <li>- Meet EU 2020 commitments,</li> <li>- Good governance principles for subsidies the norm.</li> </ul>

# A roadmap for action ctd.

Actor	<u>2013 – 2014</u> Mapping the subsidies landscape, understanding impacts and planning reform	<u>2015 - 2019</u> Implementation of EHS reform: Transition to good governance	<u>2020 and beyond</u> Reaching objectives
<b>Other actors</b>	<ul style="list-style-type: none"> <li>- Increase transparency and information on EHS,</li> <li>- Exchange information on EHS and best practices in reform,</li> <li>- Disseminate information on EHS to the public.</li> </ul>	<ul style="list-style-type: none"> <li>- Keep spotlight on issue and maintain pressure on EU and MS to reform EHS,</li> <li>- Develop partnerships or platforms bringing together stakeholders (including industry),</li> <li>- Engage public,</li> <li>- Monitor and assess compliance on reform and assess quality of data released.</li> </ul>	<ul style="list-style-type: none"> <li>- Continue monitoring and assessment of compliance,</li> <li>- Keep up pressure,</li> <li>- Continue to engage with stakeholders.</li> </ul>
<b>Windows of opportunity</b>	<ul style="list-style-type: none"> <li>- European Semester,</li> <li>- Fiscal consolidation,</li> <li>- Follow-up to Rio+20 Conference,</li> <li>- CBD COP12 (PyeongChang),</li> <li>- UNFCCC COP19 (Warsaw),</li> <li>- EU State Aid Modernisation initiative,</li> <li>- EU review of legislation on reduced VAT rates</li> </ul>	<ul style="list-style-type: none"> <li>- Other CBD and UNFCCC COPs,</li> <li>- G20 meetings,</li> <li>- G77,</li> <li>- National budgets,</li> <li>- MTR of 2014-2020 MFF and preparations for post-2020 MFF,</li> <li>- EU Regulation on National Environmental Economic Accounts,</li> <li>- UN System of Environmental and Economic Accounting (SEEA)</li> </ul>	<ul style="list-style-type: none"> <li>- Target date for CBD commitment,</li> <li>- Target date for milestone in resource efficiency Roadmap,</li> <li>- Target date for EU 20-20-20 climate and energy objectives.</li> </ul>

**Thank you for your attention**

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*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)*

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# Further reading

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- **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](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](http://www.ieep.eu/assets/952/Incentive_Measures_and_Biodiversity_-_A_Rapid_Review_and_Guidance_Development_Vol3.pdf)
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- **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 P. ten Brink Eds. Edward Elgar. <http://www.e-elgar.co.uk/PDFs/WebCats/EnvironmentUK.pdf>