

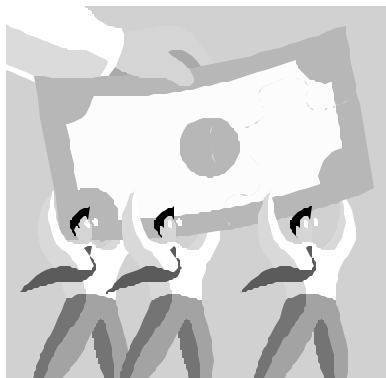
Subsidies and the Environment

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Global Subsidies Initiative

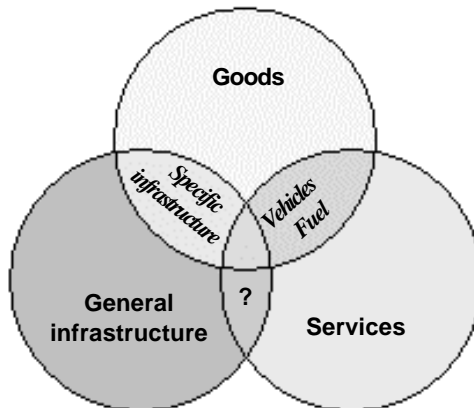
What do we mean by subsidies?



Definitions of subsidies (1)

<p><i>UN Statistical Office (SNA)</i></p>	<p>Subsidies: "Current unrequited payments that government units ... make to enterprises on the basis of the levels of their production activities or the quantities or values of the goods or services which they produce, sell or import."</p> <p>Investment grant: "Capital transfers in cash or in kind made by governments to other resident or non-resident institutional units to finance all or part of the costs of their acquiring fixed assets."</p>
<p><i>WTO (SCM Agreement)</i></p>	<p>Subsidy: "A financial contribution by a government ... [in which] a benefit is thereby conferred." Distinction made between specific and non-specific (e.g., general infrastructure).</p>
<p><i>WTO (GATS)</i></p>	<p>Subsidy: Not yet defined!</p>

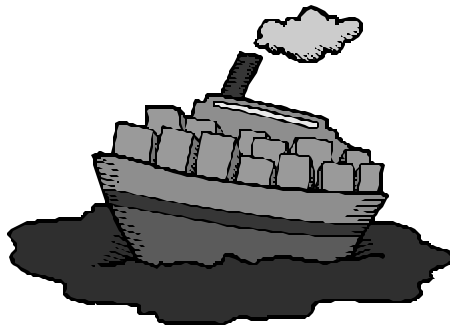
WTO classification of subsidies



Definitions of subsidies (2)

<p>OECD (Agricultural Directorate)</p>	<p>Producer Support Estimate: “an indicator of the annual monetary value of gross transfers from consumers and taxpayers to support ... producers ... arising from policy measures which support [the sector], regardless of their nature, objectives or impacts on ... production or income.”</p>
<p>Some transport, fisheries and environmental economists</p>	<p>Subsidy: Varying definitions, some including, in addition to OECD-PSE or WTO-SCM agreement, value of all environmental externalities, others (e.g., Nash) excess of total social cost over total revenues, or of marginal social cost over price.</p>

Why should trade negotiators be concerned about subsidies?



- *Effects on trade generally:*
 - Subsidies alter competitive conditions: reduce exports or increase imports of directly competing goods
 - Subsidies to inputs (e.g., energy) have a similar effect
- *Effects on trade in environmental goods and services:*
 - Example: subsidies to petroleum fuels reduce demand for products of renewable energy.
 - Subsidies to R&D in renewable energy often create early leads that are difficult to overcome.
 - Subsidies for energy conservation increase demand for environmental goods (some which may be imported).

Why should environmental authorities be concerned about subsidies?



Because of other countries' subsidies

- These often go to older, more-polluting industries, or agriculture.
- Environmental externalities include emissions of greenhouse gases, long-range pollutants (e.g., SO₂), reduced river flows, increased pollutant loads
- Subsidies may also affect common-property resources (e.g., fish in international waters; migratory birds)
- Subsidies to consumption may accelerate depletion of key natural resources, leading to higher world prices
- Other countries' subsidies for R&D could help the environment (e.g., discovery of a new catalyst), but too often results are kept proprietary

Because of problems caused by their own country's subsidies

- Again, these tend to go to extractive or more-polluting industries, or agriculture.
- Subsidies that raise the value of land (e.g., area payments) increase the cost of purchasing land for nature reserves.
- Subsidised industries often successfully resist tighter environmental regulations, because that raises costs (and need for yet more subsidies).

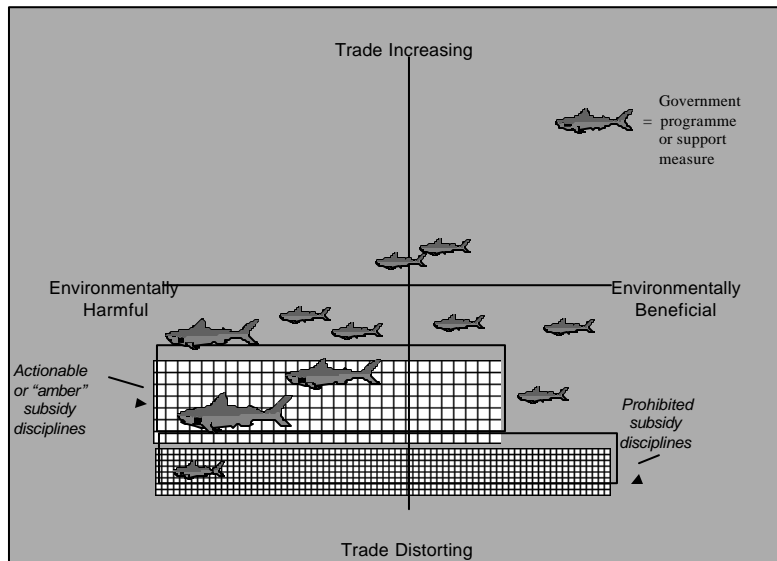


But aren't there good, "environmental" subsidies?

- Yes, but ...
- Subsidies often tend to favour particular technologies (e.g., biofuels), rather than encourage innovation and competition to meet an environmental objective (lower CO2 emissions from cars).
- Any subsidy can have unintended consequences.



Subsidies have both trade and environment effects



What can a government do to influence other countries' subsidies?



Non-legal actions



- Point out trade or environmental damage done.
- Encourage work on subsidy analysis by inter-governmental institutions and non-governmental organisations.
- Change your own subsidies or trade behaviour if it strengthens the power of vested interests in the country providing the harmful subsidies.

Legal actions

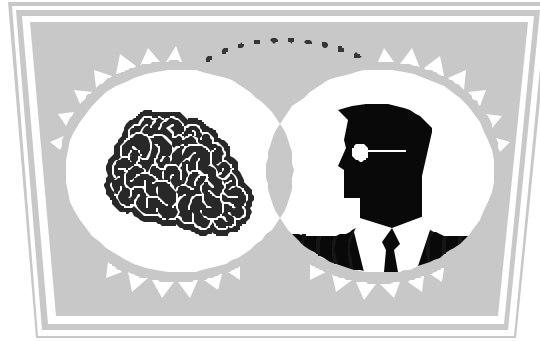
- Work within existing trade-related (WTO) subsidy disciplines.
- Participate in trade negotiations to change existing disciplines.
- Consider language on subsidies in multilateral environmental agreements (MEAs).
 - Example, Kyoto Protocol contains hortatory language calling upon parties to the agreement to stop subsidising fossil fuels



ASCM disciplines

- Do not prohibit subsidies, except export subsidies.
- Two remedies available in respect of actionable subsidies:
 - apply countervailing duties
 - initiate a dispute
- Countervailing duties are not very effective when applied by small exporting countries (“like product” question also an issue)
- Disputes are expensive, both in terms of actual costs (information, legal fees) and political costs

What can a government do to use their own subsidies wisely?



Understand the political economy of subsidies

- Recipients usually have better information about their subsidies than do governments, enabling them to exaggerate the need for subsidies.
- Subsidies can create excess profits, which in turn can be used to reward politicians, creating a closed circle.
- These excess profits tend to increase the sales value (are “capitalised into the value”) of scarce resources, like land. That means initial owners of those assets gain; others pay more for them, and lose out when subsidies are withdrawn.



Design subsidies accordingly

- Consider alternatives to subsidies (e.g., regulations, or taxes on environmentally damaging activities).
- Time-limit the subsidies if at all possible! (And stick to the time limit.)
- Link subsidy value to specific externality or market failure; avoid if possible favouring particular technologies.
- Undertake analysis of costs and benefits of the subsidy before introducing it, especially if the subsidy is large.
- Be conscious of trade effects.
- Make information on annual expenditure on subsidies, identifying major recipients, publicly available.



No-regrets policies

- Invest in understanding bio-economics of your natural resources.
- In long term, think growth in value-added, not in employment per se.
- Natural resources are a patrimony: they should be generating wealth for society, not be a drain on it.

Thank you!

