SUBSIDY WATCH
A roundup of news, views and ideas on subsidies and sustainable development

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COMMENTARY:

The real reasons behind India's reluctance to liberalize petroleum prices

by Bhamy V Shenoy, Convener, Mysore Consumer Council

In just four years the Indian government has had three high-level committees recommend how petroleum product prices should be determined. All three have shared the same general conclusions: the government should reform fuel-price subsidies and use other, more effective policies to improve the welfare of the poor. But the reality behind India's reluctance to liberalize prices is not a lack of good policy advice. It is that dealers and wholesalers can make large amounts of money out of the subsidies, and, one way or another, some of this ultimately ends up supporting politicians.

The first committee was commissioned in 2006, as international crude oil prices were climbing, and oil companies were losing money because of the price controls. The government asked the chair, Dr. Chakravarthi Rangarajan, former Chairman of the Economic Advisory Council to the Prime Minister, to look at the pricing and taxation of petroleum product prices, with a view to rationalizing them. The committee concluded in no uncertain terms that the government should allow oil companies to set prices based on trade parity – in other words, at international prices – and there should be no further interference with the market. The committee also warned that if the government failed to liberalize prices, oil-marketing companies would become non-viable, unable to recover costs and with mounting losses. This is of course something that has now taken place.

In India, the government subsidizes petroleum products by requiring the companies who sell them – referred to as 'oil-marketing companies' – to do so at a fixed price. If the companies are private, they receive no compensation and must absorb any losses. If they are government-owned, they are given government bonds in return: financial instruments that guarantee a fixed payment at a future time period, and can be immediately traded for their future value on financial markets. Giving out government bonds is essentially the same as printing new money. Government-owned oil-marketing companies are also compensated with some of the profits earned by government-owned upstream oil companies. Even state oil companies, however, lose large amounts of potential revenue and the entire sector blames the arrangement for continued under-investment and financial difficulties. Between fiscal years 2004–2009, the subsidies resulted in under-recoveries of US$ 67 billion. It is difficult to estimate the total government expenditure because the creation of bonds is not recorded as spending in the national budget.

In 2008, as crude oil prices continued to increase, and the financial situation of oil companies worsened, a second high-level committee was organized under the chairmanship of Shri B. K. Chaturvedi, a former member of the Planning Commission, the government

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body that draws up India's Five Year economic plans. Unlike the Rangarajan committee's report, the Chaturvedi report did not recommend the liberalization of prices in direct and unambiguous terms, but its recommendation that product prices be based on "export parity", as opposed to trade parity, amounted to the same thing. They suggested very strongly that there should be no subsidies on kerosene and liquified petroleum gas (LPG), and that the poor could be more effectively helped through a smart card or coupon system. In December 2008, dramatically lower oil prices offered an ideal opportunity for reform, but the government did not act on these recommendations because of populist political pressure from opposition parties and some allies. The window of opportunity soon closed: prices climbed to over US$ 70 per barrel, once again affecting the bottom lines of the oil-marketing companies.

In 2009, the government instituted the formation of a third committee, this time headed by Dr. Parikh, another former Planning Commission member, who in his Integrated Energy Report of 2006 had already recommended the liberalization of petroleum product prices and the distribution of subsidized kerosene through a smart-card system. It was not a surprise that the committee's report eventually recommended market-based pricing (without specifying trade or export parity) for petrol and diesel. It also recommended the gradual removal of subsidies on kerosene and LPG, while suggesting an immediate increase of US$ 0.13 per liter in the case of publically distributed kerosene and US$ 2.20 per cylinder in the case of LPG.

Most importantly, the Parikh committee report discredited the reason most commonly given for the control of petroleum product prices: fear of increased inflation and price volatility that would negatively affect the poor. In the view of the committee, as petrol is largely an item of final consumption in India, price increases would not be expected to have much impact on inflation, and as it is only consumed by the poor in small amounts, liberalization would not be expected to significantly affect them. A similar conclusion was arrived at in the case of diesel fuel.

The kerosene vendor shown above is unable to earn enough money for a living, while government-appointed kerosene distributors can practically mint money by diverting public kerosene supplies into higher value products.

While some of the leaders of the Congress party in the Indian government, especially finance and petroleum ministers, are currently inclined to implement the Parikh committee's recommendations, their allies in the United Progressive Alliance (UPA) – the coalition of political parties heading the government – have been slow to show their support. Even in the Congress party, there is unlikely to be much backing. The same old arguments are given: price liberalization can give rise to inflation, and the poor will be affected.

The real reason for their reluctance is that the rationalization of petroleum product prices will reduce opportunities to collect economic rents. I have conducted analysis into the diversion of subsidized products, like the adulteration of reduced-price kerosene in petrol and diesel, or the redirection of residential LPG to commercial and automotive sectors, as well as the misuse of subsidies intended for the poor, which concludes that about US$ 48 billion of 'black money' has been generated between 2004–2009. Unfortunately, while all three government-appointed reports have discussed that this diversion of products is taking place, none have even attempted to analyze the impact of such colossal amounts of money on India's governance or energy security.

Reform of India's petroleum subsidies would affect the dealers and wholesalers involved in the distribution of these sensitive products, and it is a well known and established fact that most of these dealers are either political leaders or among those close to them. Rationalizing prices in one stroke would eliminate the opportunity to earn as much as US$ 8–10 billion per year. Which political parties would like to lose such an opportunity? It is this factor which has prevented any previous efforts to implement well-argued recommendations from high-level committees. The Parikh committee will see the same fate as those that have come before. Adam Smith's invisible hand of self interest is indeed at work, but if left to its own devices I doubt it will promote the common good!

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ANALYSIS:

Pakistan puts electricity-tariff increase on hold, but still plans to eliminate electricity subsidies

The Pakistani government has delayed its latest planned electricity-tariff increase, citing strong public opposition and continued economic troubles caused by its battle with militants on the Afghan border. The country has been raising its heavily subsidized electricity tariffs as part of a program to curb large budget deficits that it agreed to as part of a US$ 11.3 billion bailout package from the International Monetary Fund (IMF).

Under the package, Pakistan agreed to increase electricity tariffs by 24% in fiscal year 2009/2010. The increase was to be done in three phases, the last of which was the 6% hike originally scheduled for 1 April 2010.

But Pakistan failed to meet the latest deadline, fearing strong public protests due to the poor economic situation in the country. It also missed a December 2009 deadline to submit a value added tax (VAT) to parliament. According to the Pakistani government, the VAT legislation was delayed because it needed to be approved by the country's four regional assemblies.

Both measures were seen as crucial to control the debt-ridden nation's deficit and keep it to an IMF target of 5.1% of GDP.

The IMF reacted to Pakistan's latest missed deadline by delaying approval of the release of a US$ 1.2 billion portion of the bailout package, which was originally scheduled for the end of March, setting off fears in Pakistan that the loan might not be paid. But according to Reuters, on 14 April Pakistan's Prime Minister's office announced it had received assurances from the IMF that the latest disbursement would indeed be approved at a board meeting on May 3.

The IMF has reportedly agreed to a delay in the introduction of the VAT until July. On the issue of the missed April tariff hike, Pakistan's financial daily the Business Recorder reports that the country is seeking a three-month waiver from the IMF that is still being negotiated. Under the proposed plan, Pakistan would pay for the approximately US$ 300 million shortfall that would be caused by the three-month delay, with money earmarked in the budget to subsidize wheat imports.

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Pakistan's economy began to falter in mid-2008 due to the sharp increase in international food and fuel prices and the deterioration of the country's security situation. A widening fiscal deficit, mostly due to rising energy subsidies and financed by credit from the central bank, caused the Pakistani rupee to depreciate and led to a sharp fall in foreign currency reserves and a 25% inflation rate.

In the autumn of 2008, Pakistani authorities embarked on a stabilization program under a 23-month Stand-By Arrangement (a special IMF facility to help countries overcome balance of payments problems during an economic crisis). This was supported by a US$ 7.6 billion loan package. In August 2009, the program was extended to 25 months while the support was raised to US$ 11.3 billion.

A major component of the program is a reduction in the country's subsidies, particularly those provided to electricity. The Pakistan Electric Power Company (PEPCO) sells electricity at well below international market prices, incurring huge losses that are covered by a government subsidy to cover the tariff differential.

The planned electricity-tariff increases are supposed to limit the differential subsidy paid by the government to approximately US$ 650 million for the fiscal year 2009/2010, and eliminate the subsidy altogether the following year.

But this year's goal appears out of reach as PEPCO's deficit for the fiscal year has reportedly already reached approximately US$ 2 billion. The deficit is not only due to delays in implementing the tariff hikes but is also a result of massive losses by PEPCO. As much as one-quarter of the electricity produced by the company is estimated to be lost to theft, inefficiency and non-recovery of payments due.

COMMENTARY:

The public goods paradigm and the EU's Common Agricultural Policy

Valentin Zahrnt is a Research Associate at the European Centre for International Political Economy (ECIPE) and Editor of www.reformthecap.eu.

From the outside, the European Union's Common Agricultural Policy (CAP) may look immutable. The only major effect of the reform passed by farm ministers in 2009, dubbed the 'Health Check', was to dissipate more serious ambitions for change for the rest of the EU long-term budget (2007–2013). And the World Trade Organization (WTO), which provided the external stimulus influential in the landmark reforms of 1992 and 2003, will not do so again in the foreseeable future: if and when they are to be passed, the draft agreements in the Doha Round fall short of requiring fundamental CAP adaptations. The main change would be the eventual removal of export subsidies – an instrument used less and less by the EU in any case.

But a closer look at the debate in Brussels reveals that the CAP may be slated for its most radical reform ever. The Single Farm Payment, a subsidy that provides direct income support based on historic entitlements, and which represents by far the largest item of spending, has become less tenable as its original justification – compensating farmers for the removal of market price intervention and coupled subsidies – fades away. Moreover, CAP reform is negotiated in the context of the next long-term EU budget. This means that if agriculture ministers fail to come forward with ambitious reform proposals, finance ministers and heads of state will do the job for them. The pressure for reform is thus higher, the scope for interstate bargains across EU spending and financing broader, and the involvement of non-farm actors stronger than ever before.

Another factor is the current highly uneven distribution of agricultural subsidies that discriminates in particular against Eastern Europe, which simply cannot be maintained forever. Some countries that were previously net beneficiaries of the CAP will soon become net payers. France, which has been spear-heading resistance to agriculture reform for decades, is the most important of them. These countries are less likely to continue as cheerleaders of wasteful spending when their own taxpayers have to support production and farm incomes elsewhere in the Union.

> *"… a closer look at the debate in Brussels reveals that the CAP may be slated for its most radical reform ever."*

This prospect of change has stimulated a rich political and academic debate. A host of studies have brought the message home: EU agricultural policies should not fiddle with prices, micromanage farm investments or support farm incomes; instead, their principal purpose should be to promote European public goods, such as clean water, biodiversity and the fight against climate change. Many of Europe's leading agricultural economists have expressed their commitment to this 'public goods paradigm' in a declaration. In response, many lobbyists for the CAP have accepted the basic logic of the paradigm, but argue it is just another good reason for farm subsidies, as agriculture is a public good. What have we learned from this debate, and what are the implications of the paradigm for the CAP?

First, it is only a matter of ingenuity to construct a story that demonstrates why agriculture constitutes a European public good and therefore 'deserves' policy support. Although food may look like a private good, given that rivalry in consumption is beyond doubt, there are certainly extreme situations that are in no-one's interests: it is best that our neighbors do not starve, and the collective interest in avoiding hunger riots is manifest. The essential issue, therefore, is not whether any European public interest can be identified, but the relative strength of public interest regarding a given issue and to extent to which that issue represents a serious risk. Analysis shows, for instance, that food security is not threatened in the short run and can be promoted via the wider policy objective of long-term preservation of natural resources. More generally, evidence suggests that the important European public interests that require decisive action are in fact 'green', including climate change mitigation, the preservation of biodiversity, maintaining water quality and access and the preservation of landscapes.

Second, the extent to which a public good is cross-border differs from one issue to another. There is a significant European interest in reducing greenhouse gases, preserving habitats for migratory birds or protecting species that are endangered. The gains for Europe are much smaller when it comes to maintaining scenic landscapes and old farm buildings, or enhancing the vitality of rural areas, both of which tend to provide the largest benefits at a national level. A strong public interest in an issue does not automatically make it an EU priority. The right policy response is to demand differentiated co-financing from the member states: the greater the national compared with the EU benefits,

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The public goods paradigm...

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the more the member states should pay for the good themselves.

Third, even if a clearly European interest is at stake, opening the subsidy purse should not be the invariable reflex of policymakers. Emission-trading schemes, taxes and regulation can be more efficient policies. Frequently, they are also fairer, as non-agricultural sectors of the economy are already subject to much more stringent application of the 'polluter pays' principle. Especially with regard to water quality and climate change – two of the most important European concerns about agriculture – vast improvements could be obtained with measures that would cost taxpayers nothing, and may even create public revenue.

Finally, debate on this issue also shows that although an acceptance of the public goods paradigm would require a radical redistribution of payments across member states, this does not necessarily mean a move towards an adjusted flat(ter) rate for all agricultural areas in the EU. Instead, payments should go where the greatest return on investment can be expected (for example, in terms of greenhouse gas foregone per euro) and where member states incur the greatest costs in promoting European public goods (such as nature preservations that limit land-use, in schemes like Natura 2000). The result would be 'uneven' but fair – contrary to the current uneven distribution, which is entirely arbitrary and unrelated to policy objectives.

On balance, the debate shows that the provision of public goods is neither an attractive nor a convincing tag with which to better sell the CAP to critical citizens of Member States. Quite the opposite: it means starting from scratch with new policy objectives and instruments and with new financing arrangements and payment allocations. Given the increasingly precarious justification for the existing regime, and the looming negotiations over the next long-term EU budget, the future CAP could be significantly leaner and greener.

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NEWS:
Fossil-fuel subsidies round-up: March and April 2010

Following announcements that fossil-fuel subsidies will be phased out, from the G-20, the Asian-Pacific Economic Cooperation (APEC) and a number of independent countries, including Iran, Nigeria and Bahrain, Subsidy Watch *each month highlights important news stories that touch on this theme…*

4 March Bloomberg Business Week reports that the Malaysian government is to delay plans for the implementation of a new fuel-subsidy system, following the rejection of proposals to use identity cards and vehicle engine capacity to limit the purchase of subsidized fuel. The design of a new system may take until October.

7 March Nigerian newspaper Vanguard speculates that a legal battle may be imminent between Nigeria's federal government and its 36 states, following acknowledgement in February that 872 billion Naira (US$ 5.7 billion) was taken from state accounts to finance the country's fuel subsidy between 2006 and 2009. The federal government now proposes deducting a further 476.6 billion Naira (US$ 3.1 billion). The article questions the legality of the subsidy under Nigerian law.

8 March The Indonesian government proposes to increase the amount of money allocated to subsidies in the 2010 budget, from 157.8 trillion rupiah to 199.3 trillion rupiah (US$ 17.2–21.7 billion), according to Reuters news agency. Of this, energy subsidy spending is to rise from 106.5 trillion rupiah to 143.8 trillion rupiah (US$ 11.6–15.7 billion). Government representatives say that they do not want reductions in subsidy spending to affect economic recovery, and that they are still committed to the reduction of subsidies in the long term. This decision follows increases in subsidy spending reported in *Subsidy Watch* earlier this year due to higher-than-expected costs of crude oil.

9 March Iranian President Mahmoud Ahmadinejad's 2010-11 budget is

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approved by parliament, including plans to phase out food and energy subsidies, reports business intelligence service MEED. According to Bloomberg Business Week, the process was not uncontroversial, with half of the proposed cuts being slashed by parliament, reducing total savings from US$ 40 billion to US$ 20 billion, due to fears over increased inflation.

12 March According to the Jakarta Post, the Indonesian government says it is not likely to raise fuel prices this year. It is authorized to do so if global oil prices rise above US$ 84.70 per barrel, but researchers predict that they will probably fluctuate between US$ 60 and US$ 80. Commentator Fauzi Ichsan, Senior Economist at Standard Chartered bank, speculates that the government would not raise fuel prices unless global oil prices rise above US$ 100 per barrel. News website TempoInteractive reports that the government also plans to forbid the use of subsidized fuel for private vehicles, on the basis that spending is hard to control and the subsidy is intended to benefit the poor.

16 March According to news website World Bulletin, Iran's budget for next year, which includes cuts to subsidies, has been approved by the Guardian Council. This is the final hurdle in Iran's political system before decisions can become law. The article reports that plans to phase out subsidies to food and energy were due to begin 21 March.

19 March In an interview on state television, Iranian President Mahmoud Ahmadinejad further complicates the process of subsidy reform by proposing to hold a referendum on the issue, reports Reuters news agency. He is said to have argued that the people should be asked their opinion, given controversy over its possible impacts. Nonetheless, The Inside News Hyderabad also reports the President describing the subsidy bill as a "necessary reform". The Los Angeles Times reports that the purpose of the referendum would be to seek approval to cut an additional US$ 20 billion on top of the US$ 20 billion already approved by parliament. The President's announcement follows months of conflict between the government and parliament over who will control the liberated spending and the total amount of cuts.

23 March Indonesia's Minister of Mines and Energy announces that Indonesia may seek to eliminate electricity and fuel subsidies by 2014-2015, according to Reuters news agency. Apparently, this is the first time the government has set out a timeline for reform. Reuters state that the subsidies are seen to be one of the main barriers to Indonesia receiving an investment-grade credit rating.

25 March Radio Free Europe reports that Iran's Supreme Leader, Ayatollah Ali Khamenei, has instructed the government and parliament to honour the plan passed by parliament at the same time as taking into account the government's concerns while it is carried out. They report that this is widely understood as approval of parliament's plan.

5 April Reuters and Radio Free Europe report that Iranian President Mahmoud Ahmadinejad has sent a letter to parliament calling for review of their decision to cut subsidy spending by US$ 20 billion, instead of the US$ 40 billion the government had proposed.

9 April According to The Hindu newspaper, Indian Finance Minister Pranab Mukherjee asks the country's Comptroller and Auditor General (CAG) to suggest ways to control the rising cost of food, fertilizer and petroleum product subsidies, in ways that will not harm the populations targeted by these policies. He also asked the CAG to report on the effectiveness of expenditure intended to promote development "at the grassroots level".

10 April Ethiopia's Ministry of Trade and Industry announce that they will adjust the local fuel price due to surges in international prices, reports Ethiopian News. The article reports that fuel accounts for 20% of Ethiopia's total cost of imports.

13 April The Sierra Club publishes a study highlighting the United States' coal subsidies that are not yet in line with the country's G-20 pledges, reports subsidy research organisation Earth Track. The four primary areas where federal finances continue to subsidize coal include contributions to international development organisations that support fossil fuel use and extraction, as well as tax-exempt and subsidized bonds, tax credits and government-guaranteed loans.

19 April A World Bank report concludes that Indonesia must eliminate fuel subsidies for its energy sector to be efficient, sustainable and secure, reports blog Wild Singapore News. The study, called Winds of Change: East Asia's Sustainable Energy Future, also looks at India, China, the Philippines, Malaysia, Thailand and Vietnam. It finds that energy subsidies intended to protect the poor largely end up benefiting the rich, and that the region needs an additional US$ 80 billion of investment per year in sustainable energy.

21 April The Global Subsidies Initiative launches a series of reports about fossil fuel subsidies and their reform, Untold Billions: Fossil-Fuel subsidies, their impacts and the path to reform, in anticipation of the G-20 Finance Ministers' meeting in Washington D.C on 23 April. The reports include research into the effects of fossil-fuel subsidies, their political economy, lessons learnt from

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previous attempts at their reform and the increased transparency of data about fossil-fuel subsidies. A fifth, forthcoming report will include research on mapping fossil-fuel subsidies.

22 April Evita Legowo, Director General of Oil and Gas at the Indonesian Ministry of Energy, announces that the government aims to cut subsidies 40% by 2014, reports the Jakarta Globe. Under a new plan, only public transport and vehicles manufactured before the year 2000 would be allowed to use subsidized fuel. Commentators have expressed scepticism that it will be possible to implement the scheme by 2011, the time-frame laid out by the goverment.

27 April Ruling party officials in Egypt have expressed concern about increases in subsidy spending on petroleum products, given the country's budget deficit. According to Egypt.com News, subsidies are reported to be 43% higher than originally intended this fiscal year: from 33 billion to 59 billion Egyptian pounds (US$ 5.9-10.5 billion). Egypt's Finance Minister Youssef Boutros-Ghali has estimated the fiscal deficit will increase by 8 billion Egyptian pounds (US$ 1.4 billion).

For readers interested in keeping track of fuel-pricing developments worldwide, GTZ's monthly Fuel Price News is an invaluable resource that announces publications and events, and major fuel-pricing news stories in different regions of the world. For more information see: http://www.gtz.de/en/themen/29957.htm

NEWS:
WTO Subsidy Dispute Round-up

U.S. agrees to pay Brazilian cotton farmers instead of removing illegal subsidies, to stave off WTO-authorized retaliation

The United States has agreed to pay Brazilian cotton farmers US$ 147.3 million annually for "technical assistance" under a last-minute provisional deal reached to avoid trade sanctions from Brazil. The deal was reached days before Brazil planned to impose retaliatory tariffs against U.S. goods, which it had been authorized to do by the World Trade Organization (WTO) as a result of U.S. failure to abide by that body's past rulings against its cotton subsidies.

In a 5 April press release announcing the provisional agreement, the Brazilian Ministry of External Relations said the U.S. is to pay the annual sum into "a fund to finance projects which bring benefit to Brazilian cotton … ."

As reported previously by *Subsidy Watch*, in a ruling handed down on 31 August 2009, a WTO panel authorized Brazil to retaliate against the U.S. to the amount of US$ 147.4 million for the fiscal year 2006, because it determined the U.S. had failed to implement previous WTO panel decisions that deemed certain of its cotton export subsidies illegal.

The panel developed a formula to calculate the annual amount of retaliation for subsequent years based on the level of use of the U.S.'s Export Credit Guarantee (GSM 102) Program, the main subsidy found to be illegal by the WTO. Using the formula, Brazil estimated it was entitled to over US$ 800 million in retaliation for 2009, which it was prepared to implement.

Before the last-minute deal, Brazil had been set to raise tariffs on a list of products it released in March that included cotton and luxury consumer items, such as cosmetics and cars. Other retaliatory measures on U.S. patents, trademarks and services were also planned.

Instead, under the provisional agreement between the two nations, which was signed 24 April, Brazil has agreed to postpone its countermeasures for at least 60 days while the sides negotiate a permanent solution.

The deal also called for the U.S. to modify the GM 102 Program, and to lift a ban on Brazilian beef and pork put in place a decade ago over concerns about foot-and-mouth disease, which Brazil has criticized as a protective measure.

U.S. cotton subsides are widely criticized for depressing world cotton prices to the detriment of small subsistence farmers, particularly in sub-Saharan Africa. A study released in April 2010 commissioned by the International Centre for Trade and Sustainable Development concluded that the United States' refusal to abide by WTO rules has lowered world cotton prices by an average of 3.5% between 1998 and 2007.

Subsidy Watch spoke to the author of the report, Mario Jales, who said that a 3.5% average price decline was a moderate one, but that the figure had reached as high as 7.1% in 2001, a significant decrease in prices.

Although Brazil has been criticized for ignoring the plight of African farmers by reaching the provisional deal with the U.S., Mr. Jales says the deal actually

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puts a temporary halt to the worst price-distorting subsidies. He also points out that the money Brazilian farmers will receive appears to be headed to research and development, a category of aid that is less price-distorting.

WTO panel finds some EU member Launch Aid subsidies to Airbus illegal, but not program as a whole

A WTO panel has reportedly found that some Launch Aid subsidies provided by European Union member states to the airplane manufacturer Airbus violate its subsidy rules. The panel's decision was given to both parties on 23 March and remains confidential, though its contents have been widely leaked by both sides.

According to Inside U.S. Trade, which cited sources from both sides of the dispute, the panel found that some instances of repayable Launch Aid to Airbus are actionable subsidies under the Agreement on Subsidies and Countervailing Measures (ASCM) that caused serious prejudice to U.S. rival manufacturer Boeing.

Under the ASCM, actionable subsidies that have been proven to cause harm on another party must be removed and a failure to do so entitles the harmed party to apply countervailing measures.

The panel also found that some Launch Aid subsidies for the Airbus A300 were export subsidies and therefore automatically prohibited under the ASCM.

Yet the panel did not find that the Launch Aid program as whole, which provides assistance for Airbus to develop and launch new aircraft, violates the ACSM. This means that each individual piece of Launch Aid that an EU member state provides to Airbus will have to be challenged as an illegal subsidy in the future.

As a result of the panel's nuanced decision, both sides claimed victory. Boeing called the decision "a powerful, landmark judgment and good news for aerospace workers across America who for decades have had to compete against a heavily subsidized Airbus."

Airbus claimed that "70 percent of the US claims were rejected," and that possible aid for the A350 it is currently developing was unaffected by the ruling, given "US attempts to include the A350 were specifically rejected."

In the coming months, another panel should release its findings on a similar dispute launched by the EU against aid provided by the U.S. federal and state governments to Boeing.

STUDY:
Earth Track investigates U.S. Energy Information Administration subsidy estimates

In March, subsidy research organisation Earth Track released a new report, *EIA Energy Subsidy Estimates: A review of assumptions and omissions*, which analyses why the United States' Energy Information Administration (EIA) underestimates the true cost of federal energy subsidies.

It makes a number of conclusions and recommendations, including the following:

- The EIA reports on federal energy subsidies are not conducted with enough regularity or systematic consistency. This can result in arbitrary or inconsistent application of what qualifies as a subsidy, and different methods being used to estimate subsidies in different studies, making data insufficiently comprehensive and difficult to compare over time. Earth Track recommends that this could be improved by adopting a regular, pre-announced schedule for analysis; recalibrating previous subsidy estimates when methodologies are updated; and adopting a more systematic review of subsidies to the energy sector.
- In the EIA's past two studies, the U.S. Congress has instructed that some policies cannot be included as subsidies. In its last study, in 2008, the EIA's lack of reference to non-governmental organisations also suggests that its use of information sources may be restricted. Earth Track recommends that the EIA should have the freedom to scope its work as needed and any restrictions should be made public.
- EIA could improve specific aspects of its estimation, such as using range estimates instead of point estimates for subsidies that are not cash payments; including analysis of the impact of subsidies on new investments; and disaggregating subsidies to renewable-energy technologies into different categories.

For each problem it identifies, the report also provides a rough indication of how much it might increase the EIA's total subsidy estimates if it were corrected, and which types of energy would see the largest increases in reported subsidies.

The report can be downloaded from Earth Track's website: http://earthtrack.net/documents/eia-energy-subsidy-estimates-review-assumptions-and-omissions

STUDY: Reports conflict in analysis of EU fishing subsidies' impacts

In March, a shadow evaluation of the EU's fisheries subsidy was released by Poseidon Aquatic Resource Management Ltd. and the Pew Environment Group, in anticipation of the European Commission's own evaluation of the program.

Using data from www.fishsubsidy.org, the shadow study analysed how €4.9 billion (US$ 6.3 billion) of funds allocated by the Financial Instrument for Fisheries Guidance (FIFG) have been spent in EU countries between the years 2000–2006. It finds that the subsidy did not achieve the levels of capacity reduction that were intended, and in some cases led to capacity increases, with cutbacks in tonnage and engine power being offset by annual efficiency gains. The report goes on to identify that 29% of the funds were used in ways that would increase fishing capacity, 54% had neutral or unclear impacts and only 17% were used in ways that would reduce capacity. The study reveals that, with the exception of Italy and Poland, no European country makes qualification for subsidies dependent on compliance with the EU fishing rules.

The shadow evaluation concludes that the subsidies contributed to the overfished status of several important European stocks and hindered the recovery of others. Only one fish stock, North Sea cod, is identified as having benefited.

In comparison, the European Commission's official evaluation is less clear and carefully worded. It acknowledges that the FIFG led to the overfishing of some stocks, and that the goals regarding fishing resources were "were not clearly defined", given the inconsistency between efforts to reduce fishing capacity and subsidies for the construction of new, more productive vessels. These points, however, are made cursorily among other findings and are not presented as significant conclusions. Although the report recommends that future fishery support should be designed to promote "more sustainable fisheries", the message is weak and lost among a crowd of other, competing objectives.

Both evaluations take place amid continued demands for increased transparency about the FIFG's successor, the European Fisheries Fund, which is responsible for the allocation of subsidies in the 2007–2013 funding cycle. For more information see www.fishsubsidy.org, which as of 29 April is now also available to read in Spanish.

The shadow evaluation can be downloaded from the Pew Environment Group's website: http://www.pewenvironment.eu/channel/view_resource/id/115166

The EC's official evaluation can be downloaded from its website: http://ec.europa.eu/fisheries/documentation/studies/fifg_evaluation/index_en.htm

STUDY: World Bank critical of farm subsidies to private goods in Indonesia

According to a recent note published in the World Bank's *Economic Premise*, agricultural spending in Indonesia should be directed at improving the provision of public services, rather than subsidizing private inputs.

The analysis finds that real public spending on agriculture increased between the years 2001–2009, from 11.0 trillion to 61.5 trillion rupiah (US$ 1.2–6.6 billion), without a corresponding increase in agricultural production. Of this, the majority was spent on subsidizing private goods – that is to say, goods where use by one consumer prevents its use by others, and which can be excluded from other consumers – such as fertilizers, seeds and grants to farmers and farmers' groups.

By contrast, the authors argue that Indonesia's increasing productivity between the 1970s and early 1990s was due to investment in public goods – such as building roads and irrigation systems and investing in agricultural research and development. This is substantiated with econometric analysis, which confirms that spending on public goods, divided into "development spending for agriculture and irrigation", has had a positive correlation with economic growth, whereas spending on fertilizer subsidies has had a negative correlation with economic growth.

A more detailed summary of the econometric analysis is said to be forthcoming. The paper does not discuss the perverse impacts that can be created by the subsidization of irrigation.

The study can be downloaded at the World Bank's website: http://siteresources.worldbank.org/INTPREMNET/Resources/EP9.pdf