



# *Rio+20 Side-Event: Overcoming the barriers to subsidy reform for a greener economy*

*Organized by: IISD's Global Subsidies Initiative, ICTSD, UNEP, Greenpeace*

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*Mark Halle, International Institute for Sustainable Development (IISD) (Moderator)*

If we—civil society, business, research organizations—are serious about sustainable development, then we can't be held back by the lack of leadership from government. What we need to do is work towards removing those things that are blocking sustainable development. If we made a list of all the barriers, subsidies would be at the top of that list.

We spend over US\$1 trillion every year subsidizing agriculture, energy, water, fisheries and transport. These subsidies are financially unsustainable, environmentally harmful, socially regressive and trade distorting. Over at Rio Centro this week, people are talking about the issue, recognizing the need to address subsidies and view them as a source of funding for other priorities. But there are a series of political barriers that make subsidy reform difficult. As a start, we need greater transparency, better communications and public campaigns to overcome these barriers.

Today I ask the panelists, in discussing subsidies for agriculture, energy and fisheries, to address three questions:

1. How do we overcome the North-South divide on subsidy reform priorities?
2. What useful lessons can be shared between subsidy reform efforts in the agriculture, fisheries and energy sector?
3. What is the role of multilateral cooperation on subsidy reform?

*Moustapha Kamal Gueye, Economics and Trade Branch, United Nations Environment Programme (UNEP)*

UNEP launched the Green Economy initiative in 2008 with the collaboration of nearly 1,000 international experts, including IISD, which was the lead author of the "Enabling Conditions" chapter of the *Towards a Green Economy* report.<sup>1</sup> The report seeks to make the case that investing in the environment and natural resources could drive growth and create jobs.

The economic, food and energy crises all have different causes, but they also have a similar fundamental factor underlying them: misallocation of funds. Subsidy reform is essential for removing perverse incentives that undermine a green economy. The cost of these subsidies is borne by society as a whole but only a small segment

<sup>1</sup> UNEP (2011), *Towards a green economy: Pathways to sustainable development and poverty eradication*. Retrieved from: [http://www.unep.org/greeneconomy/Portals/88/documents/ger/ger\\_final\\_dec\\_2011/Green%20EconomyReport\\_Final\\_Dec2011.pdf](http://www.unep.org/greeneconomy/Portals/88/documents/ger/ger_final_dec_2011/Green%20EconomyReport_Final_Dec2011.pdf)



benefits. Subsidies are a barrier to developing alternative technologies and reducing greenhouse gas emissions. The Organisation for Economic Co-operation and Development (OECD) estimates that if fossil-fuel subsidies were phased out by 2020, greenhouse gas emissions could be reduced by over 6 per cent.

Successful subsidy reform requires strong political will. UNEP's *Towards a Green Economy* report includes examples of governments that have had the courage to reform subsidies and have freed up money for social spending, such as Ghana, which used savings from fuel subsidy reform to increase spending on school fees and healthcare in poor communities.<sup>2</sup> Research from other organizations like the OECD and Global Subsidies Initiative (GSI) are helping governments take the opportunity to reform.

The discussions at Rio have reflected the difficulties in subsidy reform. But these discussions should be seen as a starting point, not an entire solution to a complex problem. What we need now is public mobilization for change.

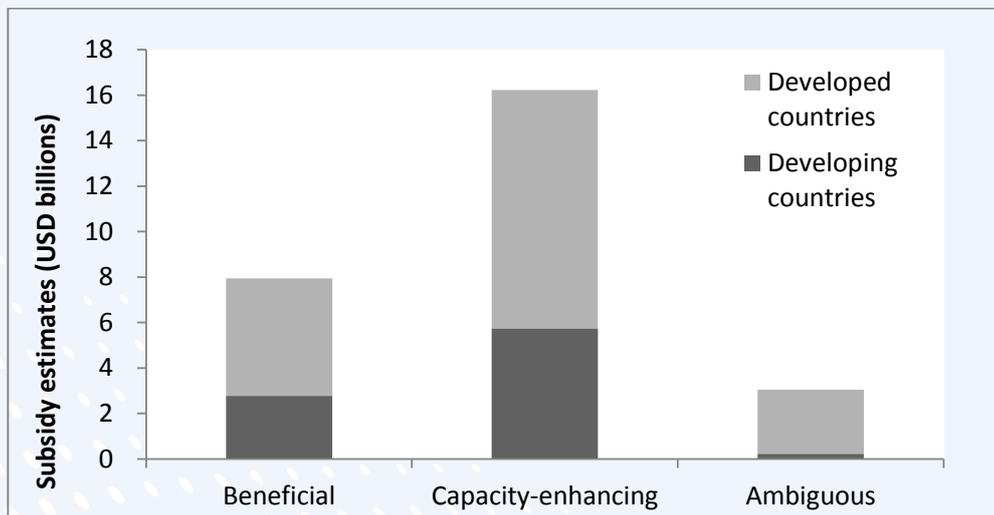
**Mark Halle, IISD (Moderator)**

The question is no longer whether we need to reform subsidies, but how do we do it effectively? It's very interesting to hear from an intergovernmental organization that we need social mobilization to overcome the barriers to reform.

**Professor Rashid Sumaila, University of British Columbia**

Not all subsidies are bad; for example, education subsidies can provide a public good. Subsidies for fisheries can be classified as both beneficial and harmful. In particular, capacity-enhancing subsidies contribute to the unsustainability of fisheries. Some unsustainable fishing techniques, such as deep-sea trawling, would not be economically viable without subsidies.

Fish subsidies are estimated to be substantial, with those that are harmful (i.e., "capacity-enhancing" subsidies) being the largest:



<sup>2</sup> International Monetary Fund. (2008). *Fuel and food price subsidies: Issues and reform options*. Retrieved from: <http://www.imf.org/external/np/pp/eng/2008/090808a.pdf>



Most subsidies are provided by developed countries. Regionally, Asia has the lion's share of subsidies at over US\$15 billion, and of these, they have the most capacity-enhancing subsidies. After Asia, in descending order of the most subsidies, is: Europe, North America, Oceania, Latin America and the Caribbean, and Africa.<sup>3</sup>

Debunking common arguments:

- *There are lots of fish in the sea.* This used to be true in the period following the world wars (when fishing practices dropped). But now, empirical evidence shows that many fishstocks are low.
- *Unlike before, we need to go farther and deeper to fish (therefore we need subsidies).* It is crazy to cater to this rationale. Governments would be better off giving fishermen money not to fish. When in a hole, stop digging!
- *Fish subsidies help fight poverty.* Actually providing subsidies erodes the resource base of fisher livelihoods.
- *We want to develop.* The science shows that the oceans are no longer full of fish. This is not the path to development.
- *Other countries do it.* This is a prisoner's dilemma and the big issue that needs to be addressed.

There are US\$16–\$19 billion worth of harmful subsidies that could be turned into beneficial subsidies. The benefit of this approach is that resources do not have to be taken out of the fishing communities; all we need to do is to convert them so they can strengthen the resource base rather than undermine it.

Proposals for turning harmful subsidies into beneficial subsidies:

- Fishing for plastic
- Fishers helping to collect scientific data
- Fishing families helping to monitor illegal, unreported and unregulated (IUU) fishing
- Alternative livelihood initiatives

#### **Mark Halle, IISD (Moderator)**

Experience from the efforts to reform fisheries subsidies provides some important lessons for reform in other sectors:

- We should focus on removing the most harmful subsidies first.
- We need to offer alternatives to those that receive subsidies.
- We need to find creative, innovative ideas for reform.

This experience is very promising—not because there has been much progress with reform, but because of the positive, creative ideas being developed.

<sup>3</sup> U.R. Sumaila, A.S. Khan, A.J. Dyck, R. Watson, G. Munro, P. Tyedmers & D. Pauly (2010), A bottom up re-estimation of global fisheries subsidies. *Journal of Bioeconomics*, 12:201–225, DOI 10.1007/s10818-010-9091-8.



***Ammad Bahalim, International Centre for Trade and Sustainable Development***

The OECD data shows that producer support estimates for agriculture total US\$1 billion per day. Between 1986 and 2009 support levels have fluctuated a little, but basically stayed the same over time. What has changed is the type of support provided: less trade distorting subsidies and more “green box” subsidies as classified by the World Trade Organization (WTO). The 70–80 per cent reduction in trade-distorting support can be seen as progress.

There is not much difference in terms of a North-South divide: governments want to achieve policy goals efficiently. However, developing countries do put pressure on developed countries to reduce agriculture subsidies within the WTO.

What’s more important is to consider the different interest groups within each country. For example, Brazil has two ministries responsible for agriculture: the Ministry of Agriculture, which is responsible for large-scale production, and the Ministry of Rural Development, which is responsible for small-scale agriculture production. As another example, in the United States, subsidies go to commodity crops, not fruits and vegetables. Subsidies create rent-seekers and public interest needs to be balanced with private interests.

A lesson that can be drawn from agriculture subsidy reform for other sectors is the need for clear policy objectives in order to persuade the government to reform subsidies. We also need to work with a wide range of interest groups, including business and non-governmental organizations (NGOs). The Common Agricultural Policy reforms in the European Union provide a useful example of successful reform for other countries.

In terms of multilateral forums, the WTO is the only legally binding forum to address subsidy reform. The issue can also be discussed within the United Nations Conference on Sustainable Development (UNCSD or Rio+20), Food and Agriculture Organization and OECD, but these will not result in legally binding instruments.

***Mark Halle, IISD (Moderator)***

When considering subsidy reform, it is important to bear in mind that subsidies in one sector affect another. For example, fuel-subsidy reform will affect fishers and farmers, and agriculture subsidies will affect biofuel production. And for the WTO to be an effective forum for reporting and reforming subsidies, the Agreement on Subsidies and Countervailing Measures needs to be substantially revised.

***Steve Kretzmann, Oil Change International***

Globally, governments spend US\$1 trillion on fossil-fuel subsidies each year.<sup>4</sup> While this figure may be slightly inflated, since the international price of oil recently dropped, the key point is really one of transparency. Governments spend billions of dollars a year subsidizing fossil fuels and yet there is very little information available about the extent or nature of these subsidies. NGOs have to cobble together wide-ranging and uncertain estimates from different sources, whereas governments have this information, they are just not making it publicly available.

<sup>4</sup> See Oil Change International’s info-graphic at: [http://www.huffingtonpost.com/stephen-kretzmann/fossil-fuel-subsidies-1-trillion\\_b\\_1605904.html](http://www.huffingtonpost.com/stephen-kretzmann/fossil-fuel-subsidies-1-trillion_b_1605904.html)



Fossil-fuel subsidy reform has been raised within a number of multilateral forums. The G-20 took a commitment in 2009 to phase-out inefficient fossil-fuel subsidies that encourage wasteful consumption over the medium term. But in the intervening three years, no subsidies have been phased out as a result of the pledge. Some reforms have taken place, but these were already on track before the commitment was made.

The G-20 has no formal reporting mechanism and relies on self-reporting, which is not only failing, but getting worse. In the first reporting period, seven countries claimed they had no inefficient fossil-fuel subsidies, and in the latest reports, nine countries claimed they have no inefficient fossil-fuel subsidies. The increase is not because reforms have taken place, but because countries are free to redefine the commitment to minimize their obligations without any consequences.<sup>5</sup> Reporting within the WTO is equally lacking, whether legally binding or not.

Governments self-report their subsidy estimates at magnitudes-of-order lower than reality. For example, the United States reports US\$4 billion worth of subsidies under the G-20 commitment, but NGOs estimate that subsidies total somewhere between US\$11 billion to US\$52 billion per year. The International Energy Agency (IEA) and OECD now provide some good data. However, there are still large gaps that NGOs are trying to fill; unfortunately, NGOs don't have access to the data.

In the lead-up to Rio+20, NGOs and some supportive governments were looking for concrete steps toward reform, including robust reporting commitments, a timeline for reform, provision of assistance for developing countries, and the establishment of an independent body to coordinate the reporting commitments of G-20, Asia-Pacific Economic Cooperation (APEC), UNCSD, etc. But this has not been achieved. Saudi Arabia and Venezuela have effectively blocked negotiations and the outcome now merely reaffirms existing commitments in other forums and invites other countries to take on similar commitments.

Likewise, the commitment taken by APEC economies in 2009 has not resulted in any significant national reforms, negotiations within the WTO are not moving, and there is no hope of getting a commitment on energy subsidies anytime soon.

There is an opportunity to make progress within the United Nations Framework Convention on Climate Change (UNFCCC). Many consider that fossil-fuel subsidy reform belongs in this forum because of the impact it can have for greenhouse gas emissions reductions. Promisingly, at the most recent climate change conference in Bonn this year, 111 countries mentioned fossil-fuel subsidies in their submission on increasing ambition on mitigation measures. There are a number of ways fossil-fuel subsidies can be addressed within the UNFCCC:

- Climate finance: The savings from subsidy reform in the North can be used to fund climate finance for the South.
- Reporting commitments: The reporting mechanism for national communications includes a review and oversight mechanism that would improve countries' reporting of fossil-fuel subsidies.
- Nationally appropriate mitigation actions (NAMAs): Developing countries may be able to develop subsidy reform as a NAMA and receive assistance for implementing the support measures (social welfare programs, etc.) that are needed to mitigate the negative impacts of subsidy reform.

<sup>5</sup> Oil Change International, in collaboration with Earth Track, have published their second review of the G-20's progress in meeting the commitment to phase out fossil-fuel subsidies. The report can be downloaded at: <http://priceofoil.org/2012/06/17/report-phasing-out-fossil-fuel-subsidies-in-the-g20-a-progress-update/>



Overall, there is no strong global governance institution. However, at the end of the day, subsidy reform needs to be a national action for national benefit. And to do this, governments need support from the public to help overcome the political barriers.

When considering the North-South differences, particularly within the spirit of the UNFCCC, the North needs to show leadership and phase-out producer subsidies first. The savings from these reforms could be used to fund climate finance for the South. And the South could use the NAMA mechanism to seek financial assistance from the North to implement flanking measures that form part of the reform package.

Lastly, it is worth noting the huge public uptake in calling for subsidy reform at Rio+20. We need to create a public debate to put pressure on leaders to reform subsidies. Hopefully this will lead to positive change.

#### **Helen Mountford, Environment Directorate, OECD**

The OECD has been working on subsidies for many years. My first project at OECD 15 years ago was to help develop a publication on environmentally harmful subsidies, which was presented to finance ministers. At the time, there was much optimism that the finance ministers would take firm action on the issue, but now, 15 years later, we are still discussing how to overcome the barriers to subsidy reform. However, there has been some progress in that time:

- While agriculture support levels have largely remained the same, they have been restructured from the more environmentally harmful and trade-distorting to “green box” subsidies.
- There is much more data on support measures and amounts as well as research on their effects from the OECD and others like UNEP, University of British Columbia and the GSI that have improved our understanding of subsidies.
- More coalitions are building to support subsidy reform.

There are a number of key elements to overcoming barriers to reform:

#### *1. Transparency*

There has been much progress on collecting data on agriculture and fisheries support in the last 1–2 decades. In 2011, for the first time ever, the OECD published an inventory of support for fossil fuels in 24 countries.<sup>6</sup> The OECD is now working to add another 10 countries to the inventory and to drill down into subnational (provincial, state level) support measures.

Transparency on the support measures is absolutely critical for reform. Subsidies need to be analyzed one by one to understand the impacts of each, in particular to identify who is actually benefiting from them and who is paying. The IEA estimates that only 8 per cent of consumer subsidies reach the poorest 20 per cent of populations in developing countries, while the high-income households benefit the most.<sup>7</sup> We need to quantify the economic impacts of subsidies and find more effective ways of supporting the poor.

<sup>6</sup> OECD. (2011). *Inventory of estimated budgetary support and tax expenditures for fossil fuels*. Paris: OECD. Retrieved from: [www.oecd-ilibrary.org/environment/inventory-of-estimated-budgetary-support-and-tax-expenditures-for-fossil-fuels\\_9789264128736-en](http://www.oecd-ilibrary.org/environment/inventory-of-estimated-budgetary-support-and-tax-expenditures-for-fossil-fuels_9789264128736-en)

<sup>7</sup> International Energy Agency. (2011). *World energy outlook 2011*. Paris: OECD.



## 2. Gradual phase-out

Pre-announcing reforms and phasing them out according to an agreed time frame can help affected industries and households adjust to the reforms.

## 3. Communications and raising awareness

Groups with strong vested interests in subsidies tend to be organized and have the resources to lobby to maintain subsidies. The collection and publication of information about the true costs and benefits of subsidies by governments, intergovernmental organizations and NGOs can be essential to raising public awareness about the need and options for reform.

## 4. Compensation measures

Subsidy reform needs to be accompanied by measures to mitigate the potential negative impacts of the reforms on the poor and vulnerable. This could include, for example, cash transfers or increased spending on other social priorities (e.g., education, health).

While these elements are common to most successful subsidy reforms, any reform plans need to be tailored to specific national circumstances. The OECD is helping to provide countries with tailored advice on how to progress subsidy reform, for example through its recent *Economic Surveys* of Mexico, Indonesia and India.

In terms of the role of international cooperation, a lot can be done. For example since 2009, the G-20 countries have been meeting a few times each year to discuss fossil-fuel subsidy reform, to compare experiences and report back on progress to each other. This sort of activity and the tracking of country progress can help reform efforts. It would also be useful to develop a common definition and reporting approach, provide further opportunities for mutual learning, and use peer reviews to support reporting and reform of subsidies.

## **Discussion**

Some of the key questions and points raised during the discussions include:

- *Do estimates for fisheries subsidies include subsidies for aquaculture?* No, but these subsidies are also quite high and environmentally harmful.
- *On agriculture subsidies, has the change to “green box” subsidies really been a positive development or have governments just found another way to relabel their payments to farmers?* The policies have changed, but we should still be wary of subsidies falling into the same pitfalls. The question that governments should be asking themselves is: is this the best possible use of funds for achieving the government’s objective?
- *The phase-out of subsidies may have very negative social effects. Reform needs to be planned as a long-term policy, but within the context of short-term democratic politics. Can the North help the South phase-out subsidies?* Climate finance could help developing countries implement social welfare schemes to support the reform of fossil-fuel subsidies.



- *Where can one find data on fisheries subsidies, in particular looking at fish policies and subsidies between the European Union and West Africa?* The European Union subsidies go to beneficiaries in both the European Union and West Africa. There is data available from the University of British Columbia and from the European Union Transparency website: [www.fishsubsidy.org](http://www.fishsubsidy.org).
- *How can we raise public awareness in youth?* We need to use social networks and media to touch the hearts and minds of youth for sustainable development and green economy. There are engaging communications tools already available on fisheries subsidies; for example, the movie *End of the Line* has been useful for academics to raise awareness among students. After watching the movie, students have tended to blog about the issues, further raising awareness amongst their peers. Targeting the 10-12 year age group has been found to be very effective at influencing households on environmental initiatives like community recycling. More broadly, UNEP has been raising awareness through the establishment of the Green Economy Coalition, which includes NGOs with wide local networks in developing countries and university groups where students are encouraged to act as ambassadors for the green economy.
- *Can we call government bail-outs subsidies?* Yes, but the question is, is this expenditure meeting its objectives? Governments make all sorts of interventions for different reasons. But these policies and expenditures need to be analyzed to understand who is benefiting and what impacts they are having.

**Mark Halle, IISD (Moderator)**

Subsidy reform is a very delicate issue to address, but we have no option but to pursue it. Massive subsidy reform is an absolute necessity for achieving sustainable development.

We need to turn the assumption that subsidies are good policy around so that the onus is on governments or others that support subsidies to prove that these are effective in achieving government objectives. In times when public funds are scarce and being cut, we need to review subsidy policies to analyze their impacts and think of them as an opportunity cost for other uses. This is real money that could be spent on healthcare, job creation, pensions, infrastructure, education or any number of public policies.

However, we should also recognize that subsidy reform can do harm, and therefore should be treated as both an art and a science: plan carefully, know the stakeholders and impacts, and develop flanking measures.

The discussions today have been encouraging—to see creative ideas for shifting the most harmful subsidies, and for educating youth. We are seeing much more public interest in the issue, which provides hope that these vast sums of money will be better spent on sustainable development and not on special interests.



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## About GSI

GSI is an initiative of the International Institute for Sustainable Development (IISD). GSI puts a spotlight on subsidies—transfers of public money to private interests—and how they impact efforts to put the world economy on a path toward sustainable development. In cooperation with a growing international network of research and media partners, GSI seeks to lay bare just what good or harm public subsidies are doing; to encourage public debate and awareness of the options that are available for reform; and to provide policy-makers with the tools they need to secure sustainable outcomes for our societies and our planet.

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