

WORKSHOP ON SUBSIDY REFORM AND SUSTAINABLE DEVELOPMENT: POLITICAL ECONOMY ASPECTS
Helsinki, 20-21 June 2006

The Finnish Ministry of Finance, which co-ordinates inputs to OECD work on sustainable development, sponsored this workshop – the fourth in a series. Reforming harmful subsidies is a main focus of the OECD Horizontal Programme on Sustainable Development. Subsidies often introduce economic, environmental and social distortions with unintended consequences. They are expensive for governments and may not achieve their objectives -- while having harmful environmental and social results.

The Helsinki workshop examined subsidy case studies from different countries and in different sectors – agriculture, fisheries, forestry, transport, energy and industry. Government support for certain sectors and economic activities is substantial in OECD countries and among the most powerful public policy instruments now in use. For example, spending on agricultural support is very high, amounting to more than 300 billion dollars a year – much higher than total annual Official Development Assistance (ODA) to developing countries.

OECD workshops started by looking at environmentally-harmful supports. The first workshop in 1999 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. The second workshop in 2002 reviewed a “Checklist” to identify subsidies whose removal would benefit the environment. The third workshop in October 2005 put subsidies in a sustainable development context where economic, environmental and social impacts are seen as interrelated. The discussions in 2005 underlined that subsidy reform is a complex political process that must be carefully managed at national level.

The Helsinki workshop was aimed at better understanding the political realities of subsidies and the political economy aspects of subsidy reform. The case studies showed that only full transparency in subsidy policies and inclusion of stakeholders – including industry and NGOs – will enable reform to begin. The need to manage the social effects of subsidy changes – on industries, workers and communities – was highlighted. It was agreed that, in some cases, temporary supports or transitional aid may be needed to get rid of longer-term embedded subsidies.

The workshop concluded that achieving reform of harmful subsidies may be largely a matter of “*good governance*”. This includes:

- 1) whole-of-government decision-making
- 2) integrated policies and policy coherence
- 3) careful timing and phasing of reform
- 4) transparency in costs and benefits to various parties
- 5) full inclusion of stakeholders
- 6) possible need for transition aids.

Several avenues were proposed at the workshop for mainstreaming subsidy reform in OECD work:

- 1) **data collection and analysis** – owing to differences across sectors, collection of subsidy data and analysis could be done on a sectoral basis by the relevant Committees (fish, transport) using the analytical framework for assessing subsidies developed for this workshop.
- 2) **workshop follow-up** – a fifth workshop could be held in 2007 focused on the political economy aspects of a particular type of subsidy, for example, biofuels.
- 3) **political economy aspects** – the political economy aspects of subsidy reform and other structural reforms could be a continued focus of the horizontal programme on sustainable development.
- 4) **country reviews** – subsidy analysis and subsidy reform could be recommended as a structural topic for the EDRC country reviews.