

Sustainable Development Framework for Assessing Subsidy Reform

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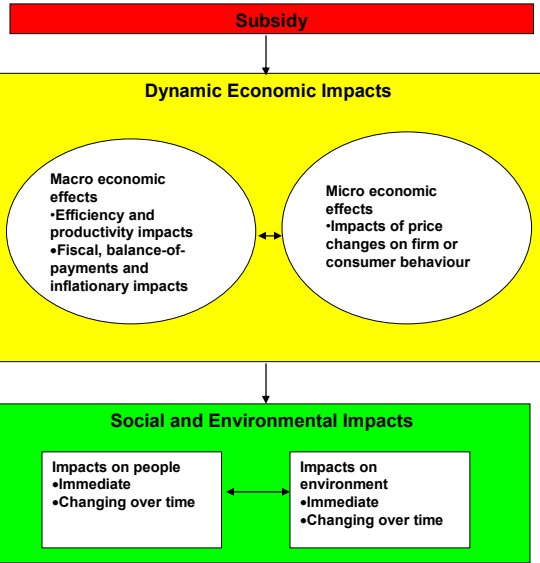
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Sustainable Development

- Integrates economic, social and environmental factors
- Looks to the long term
- Emphasises global linkages
- This is the basis for framework



Subsidy Importance

Description	USD billion
Total support to agriculture in OECD countries, 2004	378
Support to agricultural producers in OECD countries, 2004	280
Upper estimate of annual total incentive expenditures for economic development, by state and local governments in the United States, early 2000s	50
Estimate of annual government financial transfers benefiting commercial fishing, worldwide, late 1990s	15
Estimated annual subsidies for irrigation in Egypt	5
Annual "sales aid" supporting production of hard coal in Germany	3
Annual Central Government subsidies to support fertilizer use in India, crop year 2004-05	3
Annual tobacco subsidies provided by the EU, 2003	1

Framework

- Features scan
- Incidental impacts
- Long term effectiveness
- Policy reform
- Intent is to ensure sustainable development issues are highlighted in subsidy analysis

1. Features Scan

Objectives

What are the objectives of the subsidy, with respect to its environmental, economic and social impacts?

Design

Does the policy design avoid problems inherent in long-term existence of subsidies?

Features Scan (cont)

Effectiveness analysis

Does it or will it achieve its objectives?

Cost-effectiveness

What alternatives exist for meeting those objectives that might be more cost-effective?

Features scan issues

- First challenge is to define the goals of the subsidy
- Policy motivations are complex and often not articulated
- We may infer goals, but this is tricky and risky – but they are usually positive
- But if a subsidy does not meet its objectives, it needs reform

2. Incidental Impacts

What incidental impacts (impacts other than those intended) have been or can be expected from the subsidy? The scan includes attention to long term, dynamic and international impacts.

Incidental issues

- These are the unexpected results of the subsidy
- They are often the source of problems, if the subsidy is negative from a sustainable development viewpoint
- Environmental and social impacts are often not calculated
- Global and long-term impacts are often ignored

3. Long-Term Effectiveness

Is the subsidy designed so as to eventually address the underlying problems that gave rise to its creation?

Long Term Issues

- Does the subsidy address fundamental problems, or just short term issues?
- Structural change may be prevented by a badly designed subsidy.
- Changing circumstances may bring negative impacts

4. Policy Reform

What would be the environmental, economic and social impacts of various scenarios for reform of the subsidy, including outright elimination, phased elimination, and change in policy design? Would they differ from a simple reversal of the incidental impacts discussed above?

Where negative impacts are predicted (even in the context of positive net impacts), what sorts of flanking measures might be helpful in addressing them?

Reform Issues

- Because subsidies may become obsolete, they need to be tested regularly

Subsidies and Ecosystem Management

- We usually do not know enough to predict ecosystem reactions to stress
- When subsidies have important ecosystem impacts, such as in agriculture, fisheries, non-linear and irreversible changes may result
- Careful monitoring and caution are important

Adaptive Policy Design

- Policy instruments that can adapt well to unforeseen circumstances are important
- Signposts and triggers are useful
- Market based systems and decentralization of decision making also have adaptive characteristics

Biofuels Case Study

- Construction grants or loans for plants
- Price supports or tax breaks for biofuels
- Support for the production of feedstock
- Support for factors used in the production of feedstock
- Procurement support by government or through portfolio standards
- US CAFE example

Objectives and Effectiveness

- Energy security – but biofuel does not reduce fossil fuel usage or price
- Environment – reduces particulates, SO², CO, but GHGs probably not much
- Social – farm incomes and rural development are enhanced, but very inefficiently.

Incidental Impacts

- Tariffs and controls ensure national farmers benefit, but to the cost of more efficient producers elsewhere
- Large scale farming of corn and other feedstock crops use large amounts of fertilizer and pesticides

Long Term Effectiveness

- Main beneficiaries will be land owners who capitalise the income stream, and original investors in biofuel plants

Policy Reform

- Reducing or eliminating the subsidies would open up policy options for achieving similar or better results more efficiently
- There would be some social domestic impacts, and positive international impacts

In Conclusion

- Subsidies can be positive or negative, but incidental long term and environmental impacts are often negative
- Today's positive can be tomorrow's negative
- Inability to forecast future impacts suggests caution
- Ecosystem effects are particularly badly understood

