



environment

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# **Reforming Environmentally Harmful Subsidies in the European Union**

**International expert workshop on the removal and mitigation of  
perverse, and the promotion of positive incentive measures**

**Paris, France, 6-8 October 2009**

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*This presentation is not an official position of the European Commission*



# EHS reform in EU strategies

- Lisbon Strategy - Integrated Guidelines 2008-2010:  
Member States should...e) reform subsidies that have considerable negative effects on the environment ...with a view to eliminating them gradually;
- EU Sustainable Development Strategy (2006):  
The Commission should put forward a roadmap for reform, sector by sector, of subsidies that have negative effect on environment and are incompatible with sustainable development, with a view to gradually eliminate them.
- 6th Community Environment Action Programme (2002-2012) —  
the same message



## Implementation of EHS reforms

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- 2009 Communication on EU SDS Review, July 2009:  
The Commission has been mainstreaming the progressive removal of environmentally harmful subsidies into its sectoral policies, e.g. through the reform of fisheries policy and as part of the CAP health check
- Many EHS areas are within the competence of Member States (energy, transport, taxation etc)
- Limited record of EHS reforms implementation



# Common Agricultural Policy reform

- Environmental concerns gradually incorporated into CAP since 2003 reform
  - "decoupled" direct payments have replaced price support;
  - environmental cross compliance as a condition for direct payments;
  - "greened" individual CAP market organisations (e.g. fruit, vegetables)
  - budget for Rural Development, major funder of environmental measures in rural areas, has greatly increased (“modulation”)
- 2008 Health Check:
  - shifting additional part of direct aid to climate change, renewable energy, water management, biodiversity, innovation, dairy sector
  - transparency of agricultural subsidies improved
- There is still more to be done; given the amount of money still spent on the CAP, it should be more thoroughly "greened"



# Common Fisheries Policy reform

## Green Paper on Reform of the Common Fisheries Policy (April 2009)

### Current situation

- objectives of 2002 fisheries reform not met
- 88% of Community stock fished beyond Maximum Sustainable Yield
- too many fishing vessels; most make very low profit or a loss,
- catches have fallen - Europe relies on imports for 2/3 of fish consumption

### Heavy subsidies to the fishing industry:

- direct aid from the European Fisheries Fund and national aid schemes,
- indirect subsidies, such as the overall exemption from fuel taxes,
- free access to the natural resource; does not have to contribute to the public management costs e.g. control and safety at sea.
- in several Member States, budgetary support exceeds the total value of the catches



# Common Fisheries Policy reform

The Green Paper proposes fundamental changes to fisheries policy:

- End to fleet overcapacity, adapting fleet quantity to available resources.
- Refocusing the CFP's main objective on maintaining sustainable stocks.
- Adapting fisheries governance from centralised control towards regionalised implementation. A simpler, less costly policy
- Better involving the sector in resource management and CFP implementation.

Changes to subsidies:

- Closer link between public funding and objectives/challenges
- What changes can the sector not manage on its own and require public support?
- How can EU funds provide flexibility needed to respond swiftly to a crisis?
- Should support to fisheries management (access, research, control) continue to be provided free?
- Should permanent fisheries subsidies be phased out, maintaining, only those aimed at alleviating the social impacts of the restructuring of the sector?

2011 – Legislative proposal planned



# Reform of transport subsidies

- Direct subsidies for infrastructure – EU funds: Structural, Cohesion Fund, TEN-T, and national budgets
- Indirect subsidies – tax exemptions for aviation, company cars, commuters

2008 Greening transport package: getting prices right is essential

- Commission's proposal to revise heavy goods vehicles charging directive – to include pollution (air and noise) and congestion costs; proposal not approved yet by the Council
- Similar charging of private cars (Member States competence)
- Air transport – including in Emissions Trading Scheme



## Case studies of EHS reforms in MS

IIEP reports for the European Commission's DG Environment:

2007 "Reforming environmentally harmful subsidies"

[http://ec.europa.eu/environment/enveco/others/pdf/ehs\\_report.pdf](http://ec.europa.eu/environment/enveco/others/pdf/ehs_report.pdf)

The study includes i.a. case studies of successful EHS reforms

- energy, - transport, - water pricing

2009 "Environmentally harmful subsidies – identification and assessment"

- Aim: providing practical guidelines for EHS identification, assessment and quantification, based on OECD tools (quick scan, checklist and integrated assessment) and tested on six case studies of existing subsidies



## Removal of subsidies to hard coal mines UK, Poland, Germany

- Nature of subsidy: budget subsidies (PL, DE), higher price paid to coal mines by state owned electricity companies (UK)
- Environmental problem: GHG incl. methane, also from abandoned coal mines; air pollution, salinated waters, mining waste, mining damages
- Reform in 1980s-90s (UK), 1990s-mid 2000s (PL), 1990s-2018 (DE)
- Main driver of the reform: low efficiency of coal subsidies; need to reduce of budgetary deficit; privatisation of British Coal (UK); court decision (DE); transition to market economy and EU accession – EU state aid rules (PL). High coal prices on global markets facilitated the reforms
- Main opponents: mining sector lobbies, trade unions
- Effect of the reform: subsidies reduced (in PL by over EUR 1 billion/year); closure of some mines, output, employment and environmental damage significantly reduced; improved profitability of the sector
- Compensatory factors and measures: severance packages for miners (PL, DE), very long transition period before the complete phase-out (DE)



## Water pricing reform in the Czech Republic

- Nature of subsidy: water price covered only a fraction of its cost
- Environmental problem: overexploitation of water resources
- Reform: from 1990s, gradual increase in water price from 0.02 to 0.71 EUR/m<sup>2</sup>
- Main driver of the reform: policy toward full cost recovery, transition to market economy, recognition of environmental values
- Compensatory measures: no
- Effect of the reform: household water use fell by 40%, by 88% in agriculture, by 47% in industry; also energy savings



# Practical lessons from EHS reforms

- Need for good quality information and transparency, also to the general public (voters). Usually few subsidies recipients, costs borne by spread widely to taxpayers - this works against reform
- Need to understand and deal with social and local impacts and costs of both the subsidy and its removal
- Subsidy reform does not happen in isolation - need to mitigate adverse impacts, as part of a broader reform package
- Need for strong leadership, broad coalition and a well-managed process – consider staging the reform and taking advantage of economically beneficial circumstances



## Future of EHS reforms: New impulse needed at political level

- EU: in 2009 new European Parliament, new Commission
- EHS reform closely related to "Green Growth" agenda, UNEP's Green New Deal etc
- Economic crisis puts a huge strain on public finances - strong case for a reform of subsidies,
- G20 summit in Pittsburgh, September 2009:
  - G-20 committed to phase out over the medium term inefficient fossil fuel subsidies that encourage wasteful consumption...while preventing adverse impact on the poorest.
  - national implementation strategies and timeframes to be developed; analysis by relevant international institutions for the next summit
  - call on all nations to adopt policies that will phase out such subsidies worldwide.



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Thank you for your attention!