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Developing a roadmap for subsidy reform: Methodological steps and policy challenges

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Presentation Structure

1. Developing the Road Map for EHS Reform

Step-by-step guide

2. The way forward

Annex

OECD Tools

An application: Water pricing

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We need an inventory and assessment of EHS to identify

the "good"

still relevant, targeted, effective, positive impacts, few negative effects

the "bad"

no longer relevant, waste of money, important negative effects

the "ugly"

badly designed – eg inefficient, badly targeted, potential for negative effects

Develop a road map for EHS Reform

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Source: building on Sumaiia and Pauly 2007

Step by Step guide for developing a road map

(working tool, being finalised March 2012)

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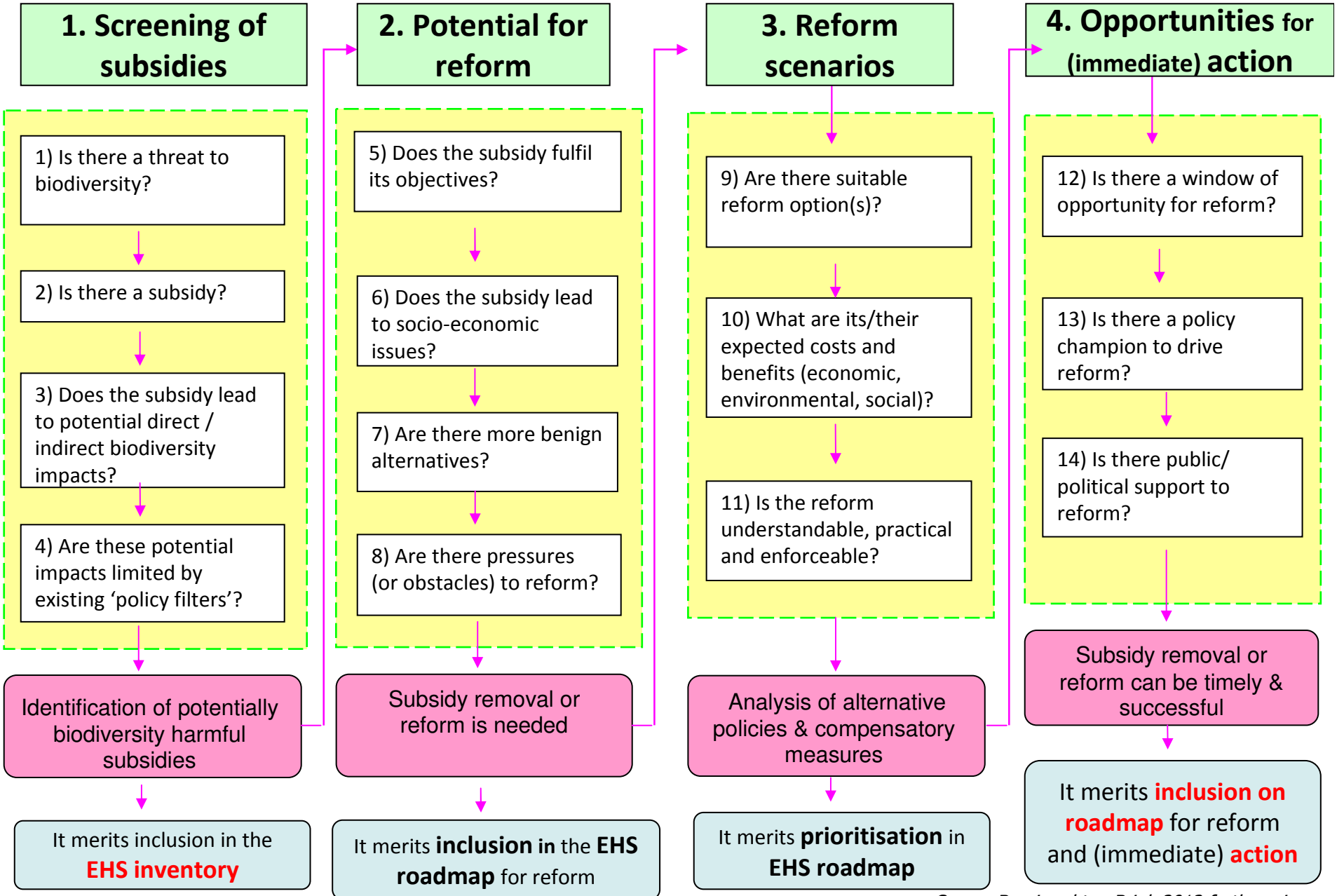
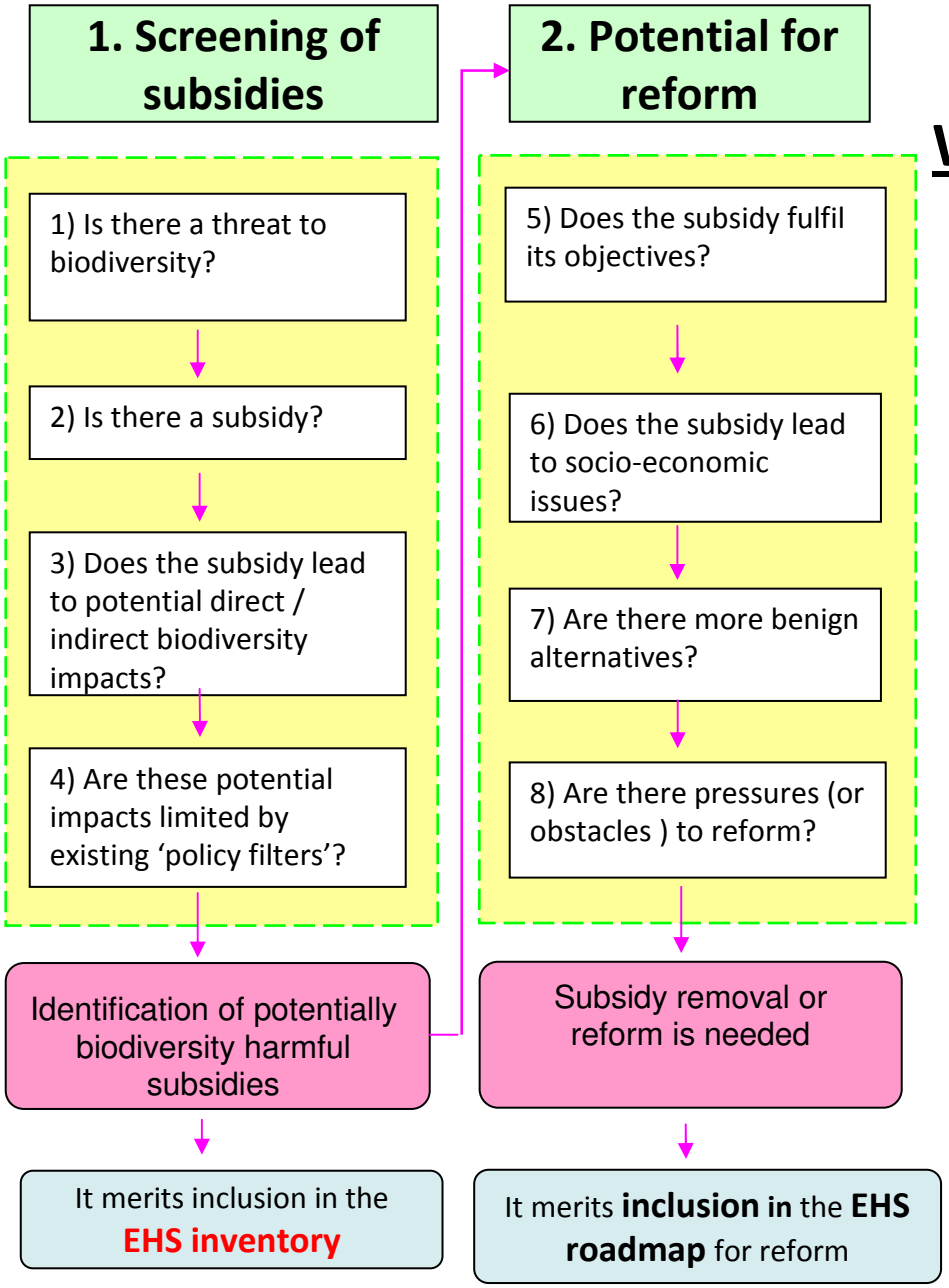
Subsidy reform flowchart – integrates OECD tools



Source Bassi and ten Brink 2012 forthcoming

Identifying EHSs to consider for the road map : use of "Traffic Lights"



What the traffic lights communicate

Where should we stop and think – whether the subsidy is an EHS and whether it potentially merits reform

Consider stopping and thinking – double check

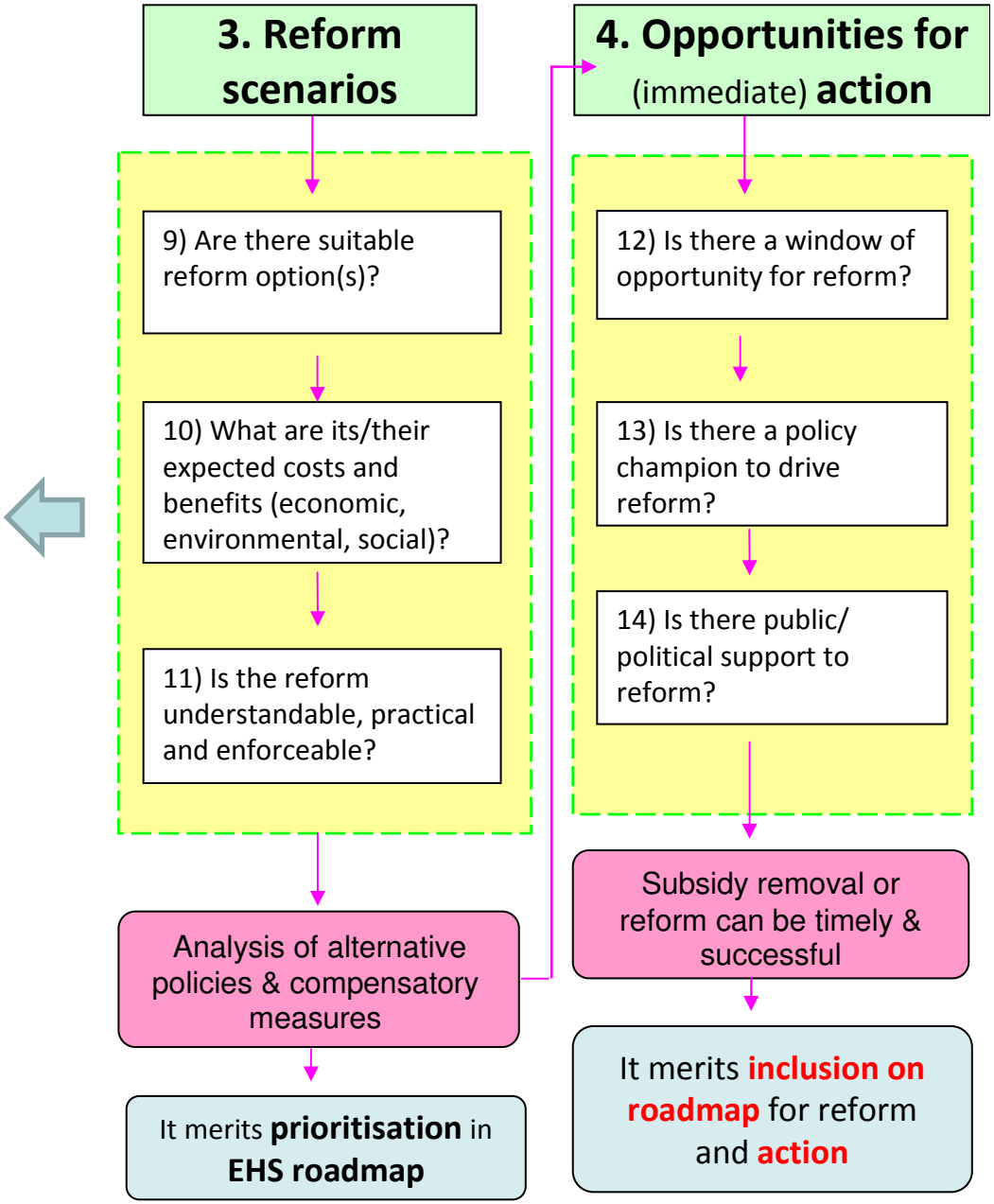
Where are things fine; no need to stop to assess EHSs

Prioritising and Implementing the road map & Traffic lights

Real potential for action: prioritise in road map and go ahead with reform initiative

Check best options / merits / possibilities for reform; see if obstacles can be overcome

'Wait' – e.g. as obstacles too large for immediate action, support not big enough to overcome obstacles. Actively plan / develop due opportunities for action



Source Bassi and ten Brink 2012 forthcoming

Subsidy reform: quick scan & traffic lights

1. Screening of subsidies

1) Is there a threat to biodiversity?

2) Is there a subsidy?

3) Does the subsidy lead to potential direct / indirect biodiversity impacts?

4) Are these potential impacts limited by existing 'policy filters'?

Identification of potentially biodiversity harmful subsidies

It merits inclusion in the **EHS inventory**

Using marine seabed ecosystem damage

An illustrative example (our cases are not fully ready yet)

Yes, significant threat: e.g. fisheries: bottom trawling

Yes, although relatively small *(while in place)*
(specify nature, scale/level of subsidy, conditionality et al)

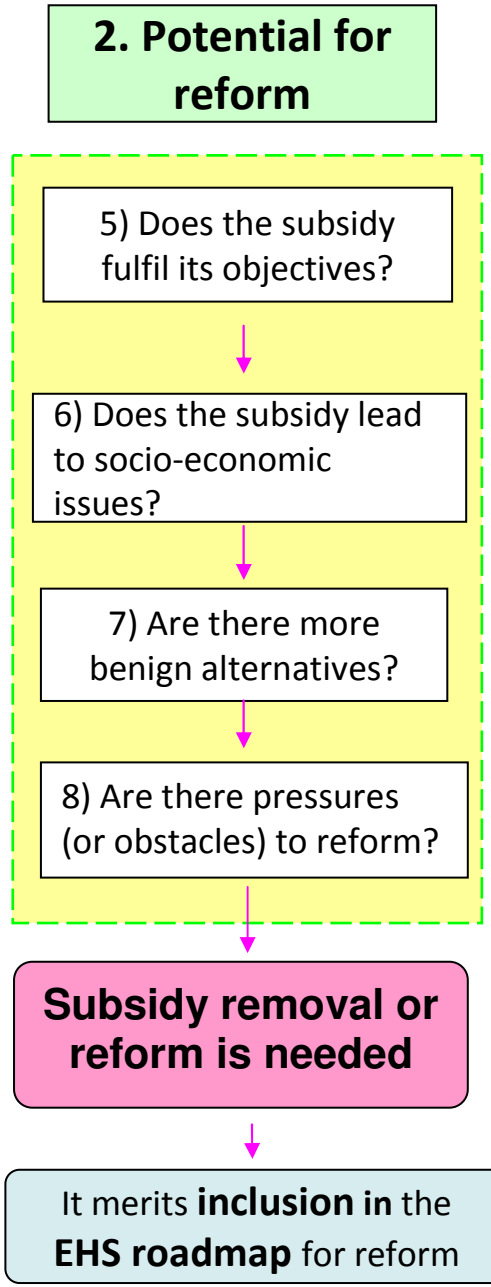
Significant potential impacts: destruction of rich, sensitive and slow recovery ecosystems
(specify what direct/indirect impacts are, scale etc)

Some mitigation (technical, bans in some areas), but not sufficient to fully offset the subsidy impact(s)

Yes – important harm, subsidy contributes, policy filter does not address the problem

Yes – stop and include in EHS inventory, assess potential for reform.

Subsidy reform: quick scan & traffic lights (cont.)



Fisheries subsidies for bottom trawling only partly address objectives of fisher viability & only in short term.
Compromises objectives: medium & long term.
Not an effective subsidy

Yes, although relatively small
Wins: short terms gains by subset of fishers
Losses: medium and long term livelihood risks to fishers + wider ESS

Yes, changing fishing techniques and zoning

Yes, fishers objections and non-implementation
Pressures for reform: can they be harnessed? Yes
Obstacles: Is this an absolute constraint? Can it be ignored, or can these be dealt with by due design/communication choices ?

Yes – important harm, subsidy contributes, does not meet objectives effectively, there are alternatives, support and no overriding reasons to hold back.

Yes – stop and include in EHS inventory and Road Map

Subsidy reform: quick scan & traffic lights (cont.)

Do suitable reform options exist suggesting that the EHS should be a priority in the road map?

Yes, removal of subsidy - as there are alternatives that meet the objectives better, while being less harmful for biodiversity. technological solutions + bans links for bottom trawling in bio-diverse areas

Some economic losses for some fishers in short term, but gains in medium term & long term – for both catch, jobs, income, community viability, biodiversity. Transition costs.

Understandable (helped by presenting information on the loss), and practical. Some enforceability issues, though these can be addressed by due resourcing

Analysis show that **reform options' benefits outweigh costs** (mix of econ. social, env.) & **understandable, practical, enforceable**. **EHS to be high priority for reform within roadmap. However, do link to transition management & communications as to reasons / benefits of the reform**

3. Reform scenarios

9) Are there suitable reform option(s) ?

10) What are its/their expected costs and benefits (economic, environmental, social)?

11) Is the reform understandable, practical & enforceable?

Analysis of alternative policies & compensatory measures

It merits **prioritisation** in **EHS roadmap**

Subsidy reform: quick scan & traffic lights (cont.)

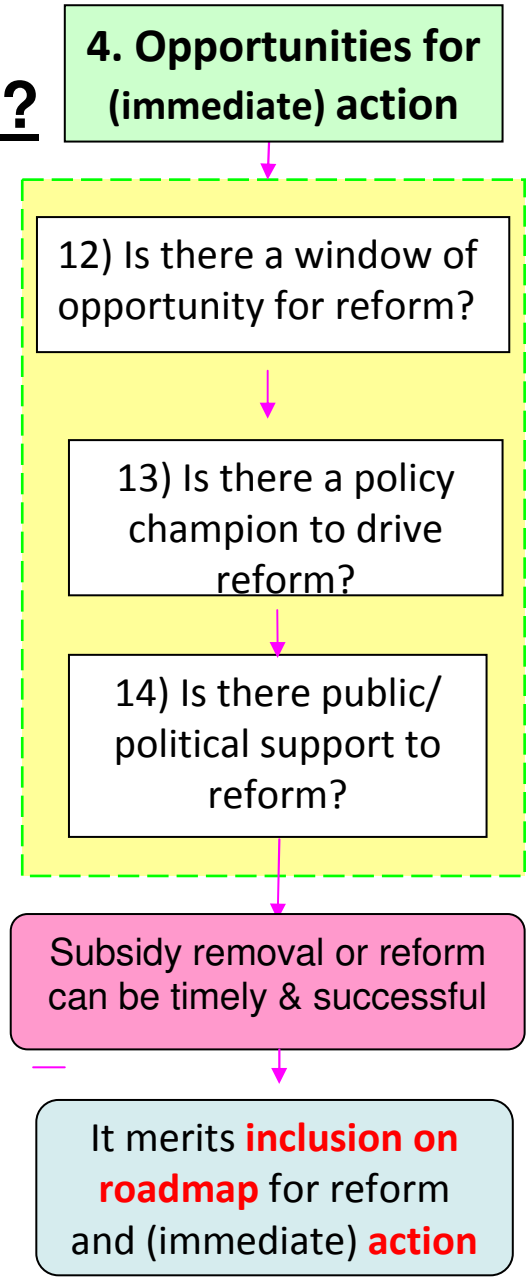
Are there opportunities for Immediate Action?

Yes, subsidies review period is approaching (specify when this is) ***[in some countries already a success]***

There is no obvious champion for reform (in country x)**.** **To do: seek out possible champion – individuals (e.g. Minister) or suitable committee (e.g. Select Committee) and seek resources, backing, facilitation.**

Yes, a lot of public information on damage to sea beds and loss of biodiversity in press; NGO activity strong. A range of parliamentarians are known to voice support (i.e. potential allies for reform)

Yes, have as an immediate priority for next budget paper; ensure, where relevant, transition management / support is clear to reduce risk and scale of criticism by interests. Ensure press release includes key to reasons/benefits of the reform and detailed report available.



Recommendations and Way forward

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New Momentum for Reforms(?)

- **Global: 2010 commitment at CBD COP 10 Nagoya (NP)**
  - UNEP Green Economy Report. Expectations for Rio+20
  - Global economic crisis; resource limits; biodiversity/environmental concerns.

- **New commitments** to subsidy reform **(Pittsburgh – G20)**

- Increasing **call for subsidy reform in EU**

  - Renewed effort on promised EHS roadmap – eg within resource efficiency flagship initiative (inventory, 2012, plan 2013/4, reform: 2020); already systematic look at reform options within CP, CAP, CFP/EFF

- **National efforts** – **FR, UK, B (FI)** making use of tool to develop inventories and develop road maps

  (Others? In your countries?)

- **Opportunities:** national debt cuts (eg Ireland, Portugal, others?)
  - Mechanism for (most cost-effective) climate mitigation
  - Mechanism for **resource efficiency** & **transition to green economy**

Doing the assessment

Can start looking either at environmental problems, or at subsidies

Can do a quick scan assessment to develop an inventory of EHS that could be contenders for being on the road map.

- **Someone with fair knowledge of the subsidy/sector/environmental problem and/or with access to good data/reports can develop a first cut assessment - eg traffic light assessment in a period of days per subsidy**
- **This would be to create a first cut map, as an working tool**

To move towards a formal roadmap would require careful quantitative and stakeholder analysis

- **Of the current effects of the subsidy** (economic, social, environmental)
- **What the options for reform could usefully be** (in light of potential effectiveness, practicability, enforceability, understandability), **and**
- **What the likely benefits are. The latter is like doing an impact assessment, and in cases may use models (though models don't answer all questions).**

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Lessons & recommendations

In the short run, Countries should:

- For **key environmental challenges** identify **whether subsidies contribute to the problem**
- Establish **transparent** and **comprehensive subsidy inventories**,
- **Assess** their **effectiveness** against stated objectives, their **cost-efficiency**, and their **environmental impacts**

and, based on these assessments:

- **Create & seize windows of opportunity** (eg financial crisis, need to curb public spending)
- Develop **prioritized plans of action** for subsidy removal/reform for medium term (to 2014)
- **Design the reform process carefully:** clear targets, transparent costs and benefits, engagement with stakeholders, coordination among government bodies.
- Implement **transition management: stage the reform,** take into account **"affordability"**
- **Subsidy reform does not happen in isolation.** Make reform part of a broader package of instruments (EFR+), including policies to mitigate adverse impacts of subsidy removal.

>> Make a good use of funds liberated!

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Thank you

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Annex

OECD Tools and an application

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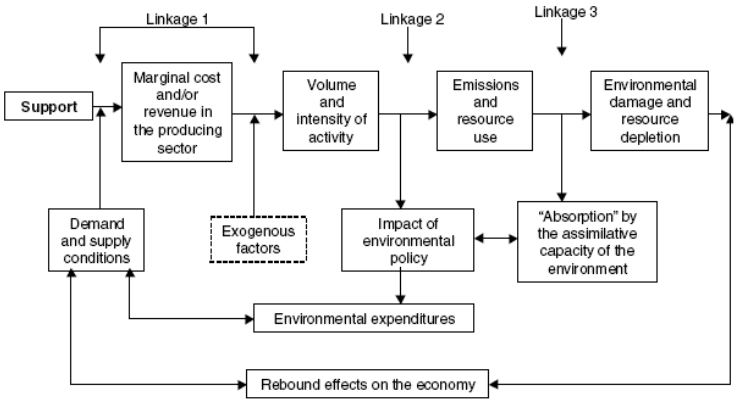
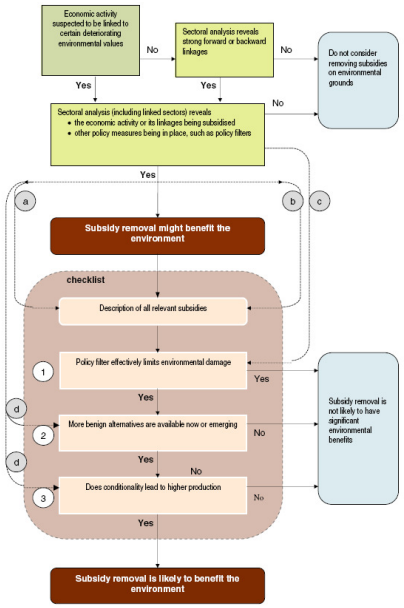
Building on the OECD tools…



1. The 'quick scan' model (OECD, 1998)



2. The 'checklist' (Pieters, 2003)

3. Integrated Assessment

1. **Features Scan**
2. **Incidental Impacts**
3. **Long-Term Effectiveness**
4. **Policy Reform:** impacts of various reform scenarios?

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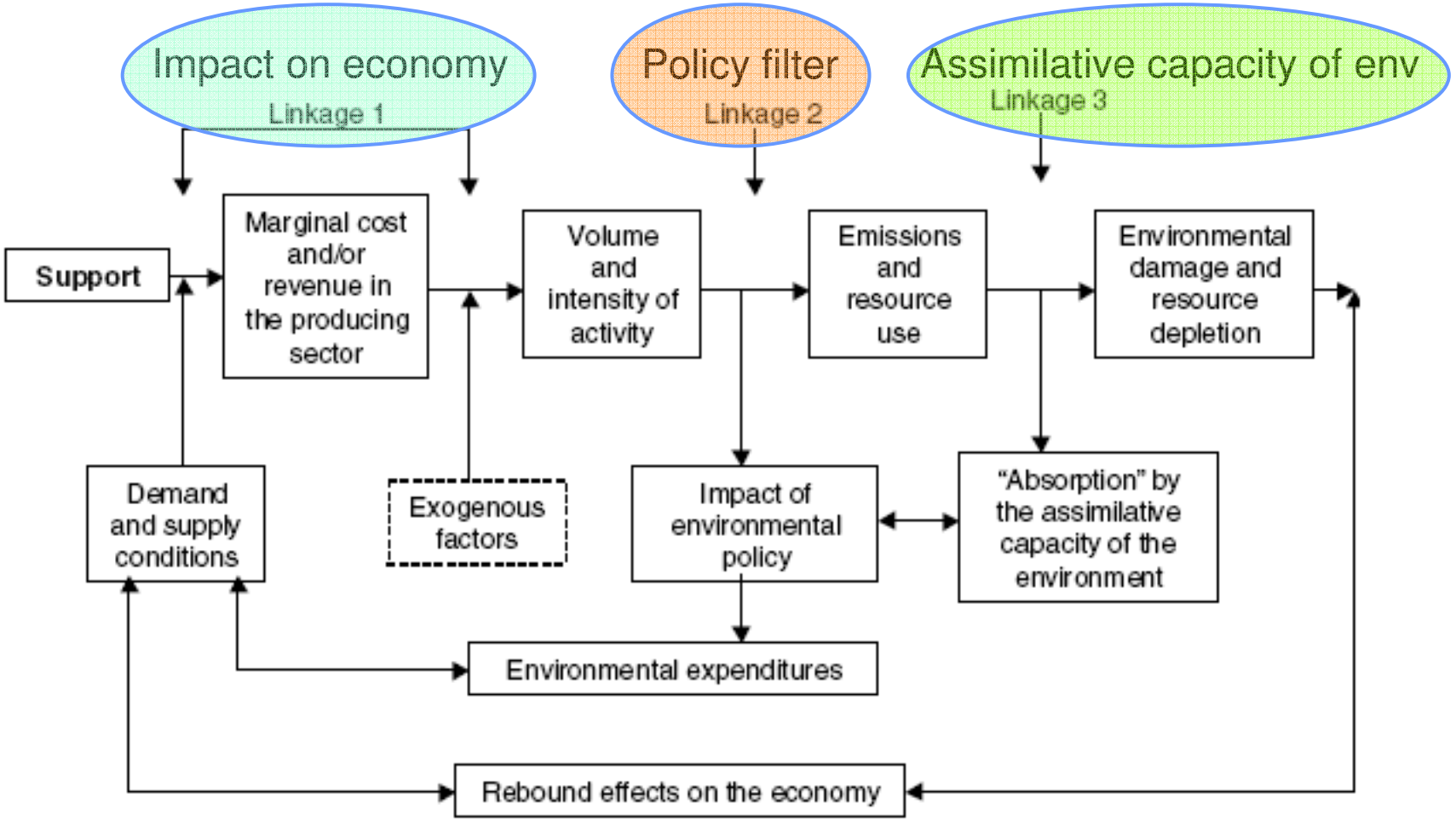
1. …the Quick-scan

"Is the support likely to have a negative impact on the environment?"



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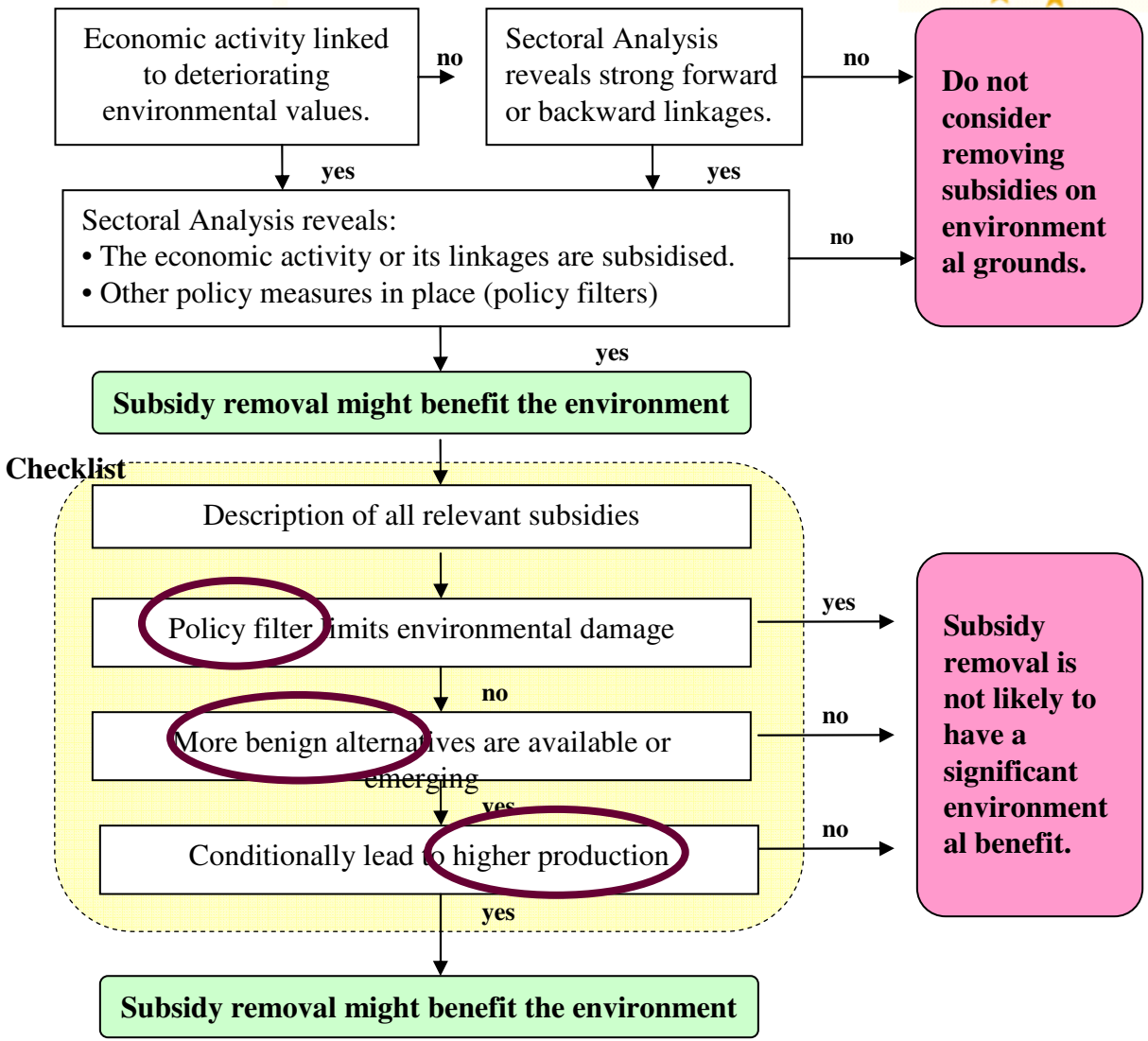
Use elasticities, econometrics, modelling

Source: OECD, 2005 **OECD, 1998**

2. …the Checklist

"Is the subsidy removal likely to have significant environmental benefits?"



(Pieters, 2003)

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3. …and the Integrated Assessment

Analysis of the economic, social and environmental impacts of the subsidy

(incl. design and social impacts)

1. Features Scan

- **Objectives** of the subsidy (economic/social/environmental)?
- **Effectiveness analysis:** Are objectives achieved?
- **Cost-effectiveness:** More cost-effective alternatives to meet objectives?

2. Incidental Impacts

3. Long-Term Effectiveness

4. Policy Reform: impacts of various reform scenarios?

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Similar to impact assessment; in cases modelling approach adopted

Assessments – an example

From IEEP et al 2009

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e.g. Irrigation EHS in Spain

What is the subsidy about?

- Low water prices for farmers in EU >> contributed to increased water use in agriculture in past 2 decades (EEA, 2009)
- In Spain - low irrigation water pricing in many areas: ie below full cost recovery, sometimes below financial costs
- Price often based on plot size (ha) rather than water volume (m^3)

Type: Off budget subsidy to input (water)

Conditionality: water consumption for agriculture

Objective: stimulate agriculture, support farmers income

Case study area: Pisuerga Valley + some conclusions on whole of Spain

Spain: Main findings of EHS report

- **Water scarcity** a major issue in Spain (& in Med countries in general) – expected to worsen in the medium-long term
- **Infrastructures:** Irrigation techniques inefficient, old water infrastructures, substantial leakage and wastage
- **Sector:** Irrigation responsible for about 70-80% water use
- **Water pricing** : ~0.01€/m^3 Pisuerga Valley (2003), average ~0.05 €/m^3 Spain (2007)
- No link to consumption, low price >> **no incentive to use water efficiently** >> overuse of scarce resource

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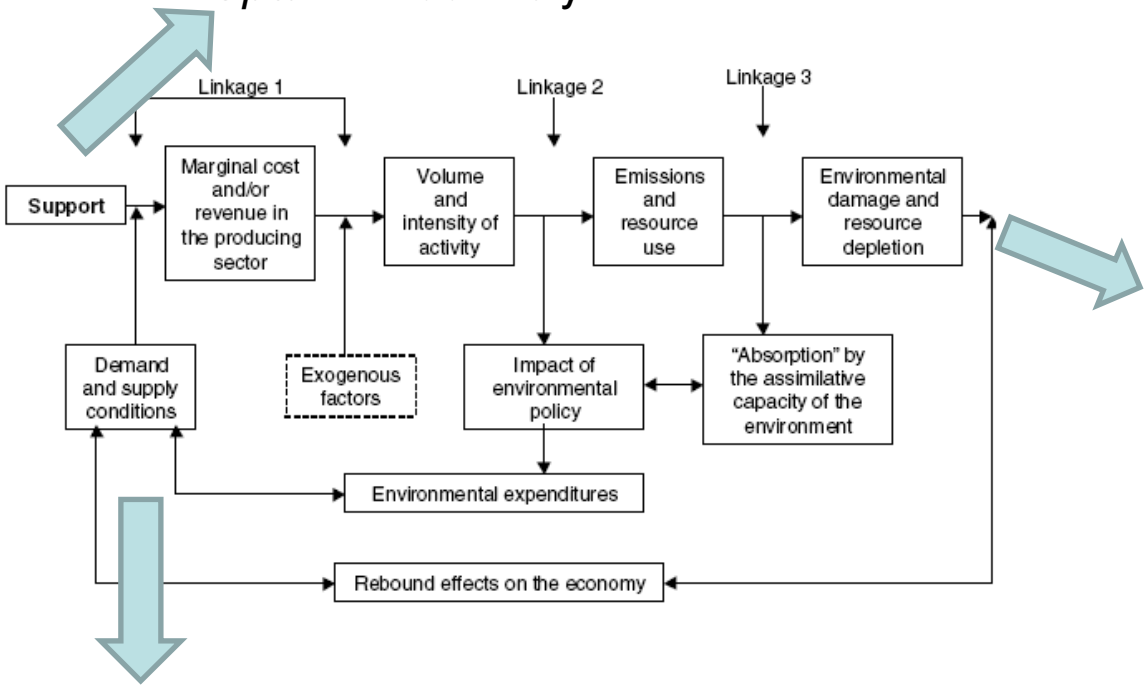
...example: Spanish water pricing

Size: *Pisuerga Valley:* between 2.1 and 3.5 M €/yr.

Spain ~ 165 M€/yr



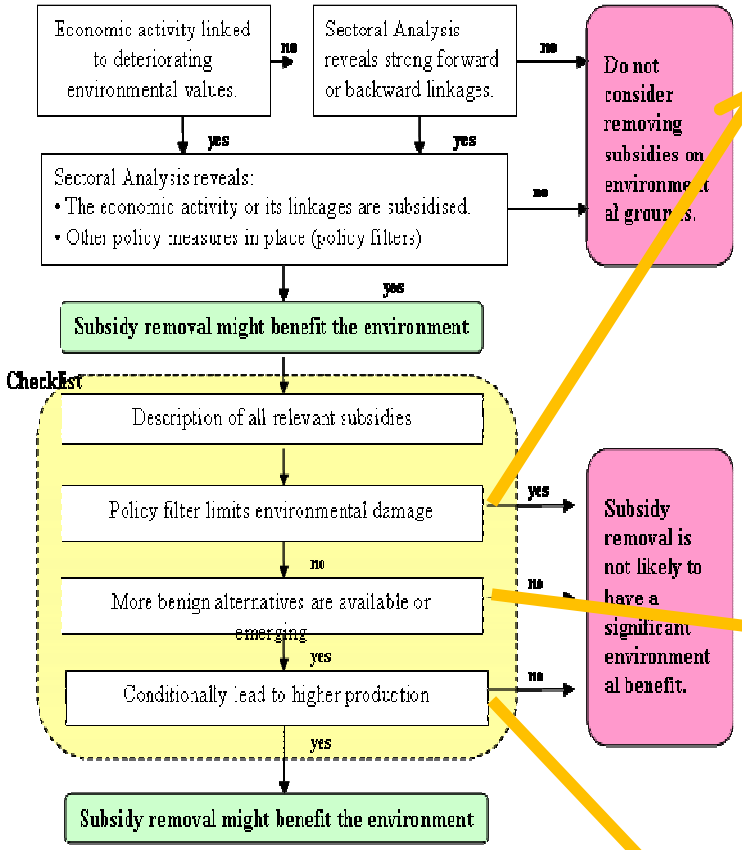
Env impacts of irrigation:

- water overuse (between 20-70%),
- pollution (eg fertilizer use 20-50%),
- soil salination,
- biodiversity loss

Demand elasticity:

- generally low but depends on local conditions (eg climate, soil) & water price
- change in crops requires time
- different effects on *farmers' income* and *water consumption*

… Selected findings from Checklist



❖ **Policy filter limits damage? NO/little**

- **License/water trading** >> some efficiency but limited # of transactions; issues of transparency and enforcement
- **Some subsidies to drip irrigation/modernisation** >> increased consumption (eg due to crop changes) – technology alone not enough!
- **CAP cross-compliance**: some signals of reduced water use

❖ **More benign alternatives exist? YES**

- improved **technology & monitoring**
- **price signals/ volumetric rates**
- programmes for **crop changes**
- compulsory water use **(good) practices**

Does the subsidy lead to higher resource use? YES

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…Selected findings from Integrated Assessment

1. **Features Scan**
   - **Objectives** of the subsidy (economic/social/environmental)?
   - **Effectiveness analysis:** Are objectives achieved?
   - **Cost-effectiveness:** More cost-effective alternatives to meet objectives?
2. **Incidental Impacts**
3. **Long-Term Effectiveness**
4. **Policy Reform:** impacts of various reform scenarios?

❖ **Effectiveness**

- **Justification:** support farmers' income
- **Effect on budget:** **reduced public revenues** (~ 165 M€ in Spain)

❖ **Incidental impacts**

- **Environmental impacts**

❖ **Long term effectiveness**

- **Social aspects:** **Subsidy benefits all farmers** *(short term)*, no distinction on wealth/needs
- **Affordability:** **Water demand can be inelastic** – impact on farmers income

❖ **Example of successful reform:**

- Guadalquivir area – higher fixed + variable charge >> 30% water reduction; longer term resource availability

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