

Annex 6: Workshop Proceedings

'Environmentally Harmful Subsidies: Identification and Assessment'

A study led by IEEP, with Ecologic, IVM and Claudia Dias Soares for the European Commission, DG Environment

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1 THE WORKSHOP

1.1 Aims and objectives

The purpose of this workshop was to review the findings of the project 'Environmentally Harmful Subsidies – Identification and Assessment', as set out in the background report, and to discuss their broad implications and usability with policy makers and experts. In particular, the workshop aimed to ensure that the results of the project are realistic, applicable and peer reviewed.

Experts and policy makers were invited to contribute to the discussion during the workshop by providing key insights from their work and experience on the broad implications and usability of the project's findings.

The workshop's findings will be integrated in the draft final report that will be submitted to DG Environment. The project is due to end in mid November 2009.

1.2 Workshop Structure and Attendance

The one-day workshop, held on 16 September 2009, was divided into four sections that combined presentations from the project team, Member State representatives, and EHS experts and included active discussion between all participants. The workshop programme included an overview of the project's aims, methodology and recommendations; descriptions of the case studies; experience from several Member States; and a discussion of issues encountered in EHS reform.

A copy of the agenda can be found at the end of these proceedings.

Discussions were prompted by, but not limited to, several key questions reproduced in Box 1.

Box 1: Overview of discussion questions

1) Questions on the critical assessment of the OECD tools

- Have you used the OECD tools?
- Are there other methods useful for the evaluation of EHS that we have not considered?
- Do they have clear and robust methodologies?
- What are, in your opinion, the strengths and weaknesses of the OECD tools (in particular considering their use by policy makers)?
- Can the OECD tools be applied across sectors and for all subsidy types?

2) Questions on the proposed integrated methodology

- Do you think the methodology outlined is clear and robust?
- Is it practical given the availability of data?
- What changes to the methodology would you recommend to make it more usable in the policy-making context? Do you have specific comments or criticisms, for example:

- Is the guidance provided sufficient for use in a policy-making context?
- If not, what kind of additional guidance would you provide (e.g. boxes on sources/methods/tools to perform each step; examples from case studies; clearer definitions)?

3) Questions on the ‘recipe book’ for calculating the subsidy size

- Is the ‘recipe book’ a useful tool for presenting a complex subject in a relatively simple form? Do you have specific comments or criticism, for example:
 - Are the steps accurate and clear?
 - Are there key instructions/elements that are missing? (Related question: how in-depth should it be? While it is impossible to cover every eventuality, the recipe book should be a good general-case set of instructions.
 - Are there any additional manuals on subsidy quantification that we should refer to? Is there any reason we should not refer to the PSE Manual and the IISD manual?

4) Questions on the ‘subsidy identity card’

- Are the chosen elements the most relevant for inclusion? (i.e. should we add, remove or revise any of them?)
- Is the visual presentation (colour coding and smileys) effective and the meaning unambiguous?
- Related question: Do you have any concerns about subjectivity?
- Does the tool work for multiple audiences (policy-makers as well as technical analysts/economists)?

5) Questions on EHS reform

- The question of whether or not an EHS exists often depends on the choice of the counterfactual or reference situation. In your opinion, is the lack of agreement on this choice of the counterfactual an important barrier for EHS reform?
- To what extent do you expect 'success stories' of EHS reform will be effective in convincing policy makers to follow suit?

Participants were invited based on their expertise in the field. They represented a wide range of practitioners from across the policy spectrum, ranging from policy makers in the European Commission and Member States, to representatives of Member States’ environmental agencies, statistical offices, consultants, academics, NGOs and independent experts.

A list of participants can be found at the end of these proceedings.

2 TESTING THE OECD TOOLS & PROJECT RECOMMENDATIONS (MORNING SESSION)

The morning session was chaired by Florian Prange, Board member of Green Budget Germany.

2.1 Introduction to the workshop

(Robin Miège, European Commission)

The workshop opened with an introduction from Robin Miège, Head of the Sustainable Development and Economic Analysis Unit at DG Environment, who noted that the EU has a long-standing commitment to removing EHS, which has been reiterated in various key EU level strategies including the EU Sustainable Development Strategy. Mr Miège described environmentally harmful subsidies as a particularly contentious issue, noting that recent environmental and economic circumstances have provided renewed reason to address this topic.

2.2 Presentations

a) Introduction to the OECD tools by the OECD

Introduction to the OECD tools: quick scan, checklist and integrated assessment
Wilfrid Legg, OECD

The presentation provided an overview of the OECD's past work on subsidies, including a description of the methodologies of the three tools, and their respective strengths and weaknesses.

PowerPoint presentation available at:

http://www.ieep.eu/publications/pdfs/ehsworkshop/oecd_tools.pdf

b) Presentation of project results

Critical assessment of the OECD tools

Carolina Valsecchi, Institute for European Environmental Policy (IEEP)

The OECD tools for identifying and assessing EHS were tested in a practical application involving six case studies. The test was aimed at identifying potential areas for improvement for the practical and operational use of the tools in the context of policy-making.

PowerPoint presentation available at:

http://www.ieep.eu/publications/pdfs/ehsworkshop/project_results.pdf (first half)

Recommendations for improvement and proposed methodology

Carolina Valsecchi, Institute for European Environmental Policy (IEEP)

One of the main findings of the critical assessment was that the tools could be streamlined into one single method to maximise individual strengths and eliminate duplication. Drawing on the results of the application of the OECD tools to the case studies, the project team have outlined a methodology that builds on the strengths of the OECD tools and tries to address the weaknesses identified.

Member State representatives were asked about the needs of their countries for the practical implementation of EHS policy reform and were invited to express their views on the project team's proposed methodology and to share suggestions for practical improvements to make it operational.

PowerPoint presentation available at:

http://www.ieep.eu/publications/pdfs/ehsworkshop/project_results.pdf (second half)

Recipe book for calculating the size of subsidies

Aaron Best, Ecologic

In order to provide simple guidance on how to calculate the size of subsidies, a 'recipe book' to apply these indicators on the level of subsidisation was developed. The indicators build on five OECD subsidy quantification methodologies and on a methodology to calculate the marginal social cost of subsidies. The recipe book provides step-by-step guidance on the use of the OECD methodologies. This guidance should be considered 'starter recipes' since additional methodological development may be required based on aspects unique to each case.

Participants were asked for feedback on the recipe book during the workshop.

PowerPoint presentation available at:

http://www.ieep.eu/publications/pdfs/ehsworkshop/receipe_book.pdf (first half)

Subsidy identity card

Aaron Best, Ecologic

Issues relating to data availability and consistency should not prevent the development of more qualitative indicators that convey the character and severity of subsidies. There is a need for tools with which to communicate the gravity of EHS to the wider public in a simple way that ensures dissemination and comparison across countries and sectors. Therefore, a set of indicators that characterise subsidies according to a number of critical economic, social and environmental issues was developed. Issues for reform in the context of the corresponding subsidy level were also considered. These are summarised in a 'subsidy identity card'.

Participants were asked for feedback on the identity card throughout the course of the workshop.

PowerPoint presentation available at:

http://www.ieep.eu/publications/pdfs/ehsworkshop/receipe_book.pdf (second half)

c) *Member State contributions*

Environmentally harmful subsidies – experience from Germany

Frauke Eckermann, German Federal Environment Agency (UBA)

The presentation outlined the scope of the UBA methodology for the identification and assessment of EHS. The approach is “pragmatic” in the sense that it provides information on the size of the subsidy and recommendations for reform, but does not attempt to quantify the environmental harm caused by the subsidy. Problems in the assessment of EHS were pointed out by presentation of examples.

The three phases of the UBA-EHS-Controlling scheme were described (screening, assessment, regulation) and compared to the methodology developed within the project. The UBA adopts a more simple approach than the one presented by the team and suggested removing requirements for information that is unlikely to be available (e.g. elasticities and quantitative environmental impacts assessment). They maintained that it is often impossible to quantify environmental impacts; therefore, it would be sufficient to provide a good qualitative description of the possible environmental impacts. Other experts commented that elements relating to environmental impacts should be more prominent in the tool. Elasticities are also very difficult to find for specific cases (and it is too resource intensive to develop dedicated microeconomic modelling to find these values case by case) thus, it was recommended that this should also be left out. The team considers it important to offer at least an order of magnitude of the subsidies and their impacts, but takes note of the difficulties relating to data availability.

PowerPoint presentation available at:

http://www.ieep.eu/publications/pdfs/ehsworkshop/experience_ger.pdf

Czech Republic: Experience in assessment of environmentally harmful subsidies

Rut Bízková, Vice-Minister, Ministry of Environment of the Czech Republic

The twelve-step process used for the assessment of subsidies by the Environment Ministry in the Czech Republic was described by Rut Bízková as long, difficult and unpopular. However, progress has been made on subsidies' evaluation. The evaluation method used includes the following steps:

- 1) Identification of subsidies
- 2) Collection of data
- 3) Balance processing
- 4) Analyses of feasibility for prospective versions
- 5) SWOT analysis
- 6) Cost-benefit analysis
- 7) Identification of impacts (environmental, economic, social-policy)
- 8) Criteria definitions and their use (environmental, economic, social-policy, technical)
- 9) Stating weight significance of criteria
- 10) What-If analysis and Risk analysis
- 11) Conclusion and evaluation of subsidies
- 12) Producing principles for subsidy reform.

The environmental impacts of a subsidy is assessed on the basis of the following crucial factors: a) type of subsidy; b) related (immediate and relevant) markets of inputs and final products; c) available alternative technologies, products or services, more environmentally friendly; d) current tax system; e) legislation and institutional frame; f) local bio-physical conditions of the beneficiary's environment

Future work to design a simplified method for faster evaluation would be beneficial. The Ministry of the Environment is also preparing a proposal for an obligatory ex-ante environmental impact assessment for subsidies, based on the SEA (Strategic Environmental Assessment) process. In addition, a register of subsidies and their defined impact on the environment (positive, neutral, negative) is currently being set up.

PowerPoint presentation available at:

http://www.ieep.eu/publications/pdfs/ehsworkshop/experience_cz.pdf

Experience from Sweden: subsidies from SEEA

Viveka Palm, Statistics Sweden

Statistics Sweden is responsible for the development of national accounts and the reporting of subsidies under the System of integrated Environmental and Economic Accounts (SEEA).

The SEEA is a satellite system to the system of national accounts that has been under development since the early 1990s. The system brings together economic and environmental information in a common framework to measure the contribution of the environment to the economy and the impact of the economy on the environment. It aims to provide policy makers with indicators and statistics to monitor these interactions and provide a database for strategic planning. This is an international system based on a UN initiative. In Europe, the information is harmonised and coordinated by Eurostat. The SEEA covers: flows of materials per industry (energy, material, and emissions waste); economic variables (labour, taxes, subsidies, costs, products and services); and natural resources (stocks, quality, value).

Under the Swedish system of SEEA, subsidies are classified as 'environmentally motivated' subsidies (EMS), potentially damaging subsidies, and other subsidies. Subsidies are classified through a detailed review of budget proposals to determine which budget lines have an environmental motive. The SEEA definition of subsidies covers on-budget subsidies to industry, transfers to international beneficiaries and households, as well as capital transfers. While some off-budget subsidies such as tax exemptions can be calculated from SEEA data where there is a direct link between emissions and taxes, other off-budget subsidies such as preferential market access and exemptions from government standards are not currently included given difficulties in obtaining such data.

PowerPoint presentation available at:

http://www.ieep.eu/publications/pdfs/ehsworkshop/experience_sweden.pdf

2.3 Summary of discussions and action points

At the workshop, there was agreement on the need for a method that is accessible to policy makers and allows them to prioritise moves towards EHS reform. In this context, the efforts made to assess and improve the operability of the OECD tools (quick scan, checklist and IA framework) were welcomed by the experts.

The methodology presented by the team, builds on the strengths of the three tools and on the lessons learned from their application to six case studies. The framework developed was considered a clear and concise framework for an accessible first assessment. Some comments and suggestions for improvement were made and are summarised below.

Participants highlighted that EHS can be assessed at a ‘higher level’ (the principle of the OECD checklist) where certain characteristics of a subsidy can unveil their potentially environmentally harmful nature and the benefits of their reform can be gauged without a complex analysis. This ‘quick scan’ approach was considered an essential step to improve the accessibility of the issue of EHS to policy makers and facilitate EHS reform. The integrated tool developed by the team builds on this concept of accessibility, which was considered a strength by participants at the workshop. It was considered that it might still be necessary to employ macroeconomic tools or CBAs once the quick scan had highlighted important potential impacts (the latter is beyond the mandate of this project).

Discussions focused on **how to improve the operability of the integrated tool and the recipe book** (e.g. what steps can be realistically taken with the data available, what level of detail is necessary, who will use the methodology).

The following points presented below were discussed at the workshop. Certain points of discussion were selected by the project team as improvements that can be addressed within the remaining time frame of this project.

1. Simplification of the integrated tool

During the workshop, it was noted that the assessment framework needs to be indicative as all subsidies are different and the integrated tool should avoid becoming a template. Certain participants noted that the assessment was too broad and suggested focusing on crucial elements that would allow an understanding of environmental harmfulness and the benefits of reform (e.g. point of impact and benefits of removal in Pieters’ checklist).

Actions:

- The team will examine the methodology and give more prominence to crucial elements.
- Check that there are no overlaps in the methodology.

2. Recipe Book for the quantification of subsidies

Participants at the workshop considered the recipe book for the quantification of the size of the subsidy and of marginal social costs, to be useful, and recommended that further clarity on the linkages between the recipe book and the integrated tool (and environmental impacts) were made.

Actions:

- Create a better link between the recipe book (to calculate the size of subsidy) and the integrated tool.
- Highlight in the recipe book formulas for each calculation method.
- Create a better link with methods to evaluate environmental harm (elasticities; cost-benefit analysis; modelling), providing a description of these different methods and difficulties in using.
- Check strengths and weaknesses of the OECD indicators table.

3. Level of detail

The UBA adopts a more straightforward approach than the one presented by the team and suggested removing requirements for information that is unlikely to be available (e.g. elasticities and quantitative environmental impacts assessment). They claim that it is often impossible to quantify environmental impacts; in such cases, it should therefore be sufficient to provide a good qualitative description of the possible environmental impacts. Other experts commented that elements relating to environmental impacts should be more prominent in the tool. Elasticities are also very difficult to find for specific cases (and it is too resource intensive to develop dedicated microeconomic modelling to find these values case by case), thus it was recommended that this should also be left out. The team considers it important to offer at least an order of magnitude of the subsidies and their impacts, but takes note of the difficulties relating to data availability.

Actions:

- The team will attempt to clarify when elasticities are important, noting that an assessment can be made even when such information is not available.
- Regarding the issue of environmental impacts - linkages between the subsidy and the environmental impacts will be made more prominent in the methodology. Further guidance on how to develop a good qualitative assessment will be provided in the methodology as well as a brief reference to different quantitative techniques. The importance of considering the whole variety of environmental impacts relating to a subsidy will be reaffirmed.

4. Policy filters

There is a need to clarify whether policy filters encompass only those environmental policies that mitigate the environmental impacts of a policy (this is the approach used in the OECD tools) or whether this includes all policies (and taxes) which affect the sector.

It was noted that taxes often come in packages, and that it is important to identify the ‘common denominator’ of those packages, which would act as a policy filter. It is important to establish whether these will be removed as part of the subsidy reform or whether they would form part of the counterfactual. This would also imply identifying possible synergies between the measures within a package.

Following feedback at the workshop, there appears to be a need to clarify the concept of policy filters.

Actions:

- Clarify the definition of policy filters - does this include environmental policies only or other taxes and policies in that sector? Clearer guidance should be given on how to deal with packages of subsidies and taxes that are all linked to each other.

5. Guidance

There was general agreement that the level of guidance provided was good. Some areas for improvement were suggested. These include:

- More nuanced guidance on policy alternatives
- The tool should be fit for evaluating the effectiveness of environmentally beneficial or harmful subsidies (e.g. car scrapping, renewables)
- Objectives – these could be difficult to identify. It is important to look at the latest ones (note that these could change and it is difficult at times to trace it)

Actions:

- Some further guidance will be provided to address these points.

6. Steps in the assessment

It was considered that Phase 1 (screening) and Phase 2 (broader assessment) could be turned into a more iterative process i.e. working on some elements in parallel (e.g. the validity of the subsidy objectives could be checked in parallel with the screening process). *However, the team considers that, this would go against the aim of the screening phase (and beyond the mandate of this work) which is to keep the assessment focused on EHS rather than making it an assessment of all subsidies in all their dimensions from the outset.*

Moreover, various suggestions were made on how to improve the order in the step-by-step process, including:

- Start the process by intuitively selecting a list of subsidies by applying a political filter (e.g. the EU climate goals).
- Start from the analysis of the economic activity (does it handle environmentally harmful substances, does it use natural resources, environmentally intensive inputs?)
- Talk about political feasibility earlier in the process.

Actions:

- Provide a clearer understanding of the aims of the screening process (i.e. to identify EHS) and note that further analysis of other sustainable development dimensions should be undertaken only once a subsidy has been identified as an EHS.
- The effectiveness and logic in the order of steps will be checked and if necessary amended to improve the effectiveness of the process

7. Linking with potential users

A missing link identified by some experts was the identification of potential users and the process this tool would come under in the policy making/policy reform process. Experts identified certain points to be addressed including:

- Clarify who the tool is aimed at. Is it a detailed methodology for expert practitioners or is it for someone with no expertise?
- Clarify who does what in the process. Who works on policy reform options?
- How can this process be linked with ‘non-environmental’ departments? It was noted that in most cases reform is taken forward by policy makers that do not necessarily have the environment as a priority.
- How could this tool interact with the impact assessment process?

Actions:

- A new section will be drafted to address these points.

In suggestions for further work, it was recommended that the method is piloted with Member States and that the Commission work with its counterparts (e.g. among DGs) on these issues.

8. Subsidy identity card

The subsidy identity card was considered to be a novel and welcome contribution. Some suggestions were made to improve the communication of messages important to the reform process across departments, these include:

- Underlining the importance of EHS removal for achieving climate change objectives.
- Using a spider diagram to represent impacts on different sustainable development dimensions.
- Increase the focus on environmental benefits of subsidy removal since these are expected to be substantially different from a simple reversal of the environmental harm of the subsidy in place.

Actions:

- Add additional social/economic co-benefits in ‘reform scenarios’ section of the identity card.
- Address use of colour with alternative symbols (to avoid difficulty to read when printed in black and white)
- Add spider diagrams as example using the broad categories in the identity card
- Add guidance to ensure climate change impacts are mentioned.

3 CASE STUDIES ON IDENTIFICATION AND ASSESSMENT OF EHS & DISCUSSION OF EHS REFORM (AFTERNOON SESSION)

The afternoon session was chaired by Manfred Rosenstock, of the European Commission's DG Environment. The afternoon session presented the case studies, which allowed the team to test the OECD tools and broader consideration of the political economy of EHS reform.

3.1 Recap of ambitions by the Chair

(Manfred Rosenstock, DG Environment, European Commission)

The Chair highlighted the importance of addressing EHS in the current political context: the current financial crisis; the Commission reviews underway of the Sustainable Development Strategy and the Lisbon Strategy; and under the present Swedish Presidency of the EU, whose priorities include working towards an eco-efficient economy.

Box 2: Context and opportunities for EHS reform

At the workshop it clearly emerged that a new interest in EHS reform is shaping up, prompted by the need for ensuring more revenues due to the fiscal crisis and the need for more transparency in public finances. Member State representatives and representatives of various DGs of the European Commission (e.g. DG ECOFIN and DG TAXUD) considered the time ripe for action on EHS.

There are also several upcoming opportunities in which EHS reform could be set within the EC's policy priorities:

- Adoption of the Environmental Council conclusions on 'Towards Sustainability: Eco-efficient Economy' as a contribution to discussions on the post-2010 Lisbon Strategy for growth and jobs and the EU Sustainable Development Strategy.
- A revision of the Integrated Guidelines under the Lisbon Strategy and review of the Lisbon Strategy is expected to be published by the Commission by the end of 2009 or early 2010. The European Council will adopt Conclusions on the Commission's review in March 2010 and more detailed Conclusions on operational guidelines will be adopted in June 2010.
- Review of the renewed EU Sustainable Development Strategy by the European Council in December 2009 based on the Commission's second implementation report presented in July.

At the international level, other developments provide prospects for action. In September 2009, at the G20 meeting in Pittsburgh, Heads of State approved a US backed proposal to phase out fossil fuel subsidies in the "mid-term". The leaders called on their energy and finance Ministers to report on strategies and timelines for implementing this 'critical commitment' at the next leaders Summit in 2010 in Canada.

DG Environment noted that there is a need to ensure buy-in for EHS reform from various governmental departments and from the cabinet offices. DG ECOFIN noted that there is currently scope for striking action on EHS reform given that DG TAXUD,

DG ECOFIN, and DG Competition (e.g. State Aid Action Plan review) are all likely to be open to the need for reform in the current economic and financial context. It was noted that DG Environment would need to set up communication links via the Secretariat General to push this process forward.

3.2 Presentations of the results of the case studies

(Project team: Institute for European Environmental Policy (IEEP), Ecologic, IVM)

The OECD tools for identifying and assessing EHS were tested in a practical application involving six case studies.

The case studies were selected from a long list of cases on the basis of selection criteria including: data availability, potential harm to the environment, relevance to EU policies, type of subsidy, existence of calls for reform and social and economic relevance.

The analysis undertaken has been instrumental to assess the effectiveness of the tools in achieving their aims, their user friendliness, data intensity, their comparability and the identification of gaps and links. The analysis undertaken does not have the ambition of providing an exhaustive review of the cases in themselves.

The project team presented the results of the case studies. For each case study, the team aimed to: identify the subsidy on the basis of a counterfactual; estimate the size of the environmental impact; estimate the size of the subsidy (both indicators of subsidy levels and marginal social cost); enquire if the original objectives of the subsidies are still valid and whether they are achieved; identify existing alternative technologies or policies; and list options for policy reform.

The following case studies were presented at the workshop:

VAT reduction for domestic energy consumption in the UK, Frans Oosterhuis, IVM

PowerPoint presentation available at:

http://www.ieep.eu/publications/pdfs/ehsworkshop/cs_vat.pdf

Nuclear energy: waste and decommissioning subsidies in Germany, Aaron Best, Ecologic

PowerPoint presentation available at:

http://www.ieep.eu/publications/pdfs/ehsworkshop/cs_nuclearger.pdf

Fuel tax exemptions for biofuels in Germany, Sirini Withana, Institute for European Environmental Policy (IEEP)

PowerPoint presentation available at:

http://www.ieep.eu/publications/pdfs/ehsworkshop/cs_biofuels.pdf

Fuel taxes: diesel vs. petrol in Austria, the Netherlands and the UK, Aaron Best, Ecologic

PowerPoint presentation available at:

http://www.ieep.eu/publications/pdfs/ehsworkshop/cs_diesel.pdf

Company car taxation in the Netherlands, *Carolina Valsecchi, Institute for European Environmental Policy (IEEP)*

PowerPoint presentation available at:

http://www.ieep.eu/publications/pdfs/ehsworkshop/cs_companycars.pdf

Irrigation water subsidies in Spain, *Samuela Bassi, Institute for European Environmental Policy (IEEP)*

PowerPoint presentation available at:

http://www.ieep.eu/publications/pdfs/ehsworkshop/cs_irrigation.pdf

3.3 Discussion

The afternoon discussion revolved around the role of the case studies and the importance of the correct terminology. Some of the highlights of the discussion are summarised below.

Role of case studies

The motivation for the case studies was queried – did they serve to test the tools or to investigate the actual subsidies in question? If the latter, it was cautioned that case study findings should not be widely extrapolated; a broader framework is required if recommendations are to be made. It was also remarked that the defining counterfactuals is a complex process.

The researchers responded that the case studies were intended to test the methodologies. Therefore they were not as deep or as inclusive of stakeholders as they would be if investigating their subjects in reality. With regards to the counterfactual, it was acknowledged that one must be ‘savvy’ as to the current policy framework.

Action:

- [Follow up on specific comments received on each case study.](#)

A broader discussion on the usefulness of case studies in the context of EHS followed. Case studies were considered to be useful by policy makers and policy implementers in particular to provide *some* data and information on EHS. However, it was noted that policy recommendations depend on the context and can be dangerous if translated in other contexts. Case studies are considered useful tools to portray good practice rather than failures. There was an agreement that case studies are important in policy making as they provide useful pointers for action. In cases where data is lacking they are precious tools.

Subsidies and Environmentally Harmful Subsidies – terminology and definition

The importance of the choice of the definition of a subsidy was reaffirmed during the discussions. It was noted that the definition chosen is ultimately a political choice and the implications of the choice must be clear. The OECD reaffirmed that they do not consider externalities as subsidies, even if the question of correcting the market, of making the market competitive, transparent and fair through internalisation and PPP implementation, remains an important aspect of economic and environmental policy.

Furthermore, the definition of what constitutes an ‘environmentally harmful subsidy’ was questioned by some participants [who do not know the policy and research debate!]. What degree of environmental harm determines that a subsidy becomes an EHS was considered in some cases to be too subjective and it was suggested that a subsidy should be looked at in terms of its ‘impacts’ on the environment, whether these are positive or negative would be shown through an analysis. Some proposed to have an analysis of subsidies from a sustainable development point of view, integrating economic, social and environmental aspects on the same level.

There emerged two schools of thought on the use of the term ‘environmentally harmful subsidies’. While some participants believed that it was necessary to be straightforward and blunt, ‘calling a spade a spade’; others felt the term EHS cultivated negativity and defensiveness and may cause an obstacle to the issue being actively taken up. A compromise can be found in maximising opportunities, where they exist, to take a positive line – for example, highlighting the double dividends (sectoral co-benefits) of subsidy removal where they exist (as mentioned in earlier discussion) and positive phrasing where possible. However, it was also recognised that problems are not automatically solved by redefining the terminology and that it is important to remember the mandate within which IEEP and their partners are working on this particular project focusing on EHS.

3.4 Political economy and EHS reform

(Candice Stevens, former OECD Sustainable Development Advisor)

Candice Stevens shared her opinions on the methodologies proposed by the team in the light of political economy considerations. Highlights from her talk are summarised below.

Political economy and EHS reform *(Candice Stevens, former OECD Sustainable Development Advisor)*

The OECD work on EHS reform began with Ron Steenblik and Wilfrid Legg. Recommendations were made for reform in many sectors but no action was taken; as a result, the political economy of reform came into focus. The current economic crisis provides an opportunity for reform to take place. Transition support is often needed for those who will initially lose out from reform.

The OECD has opened the way on the analysis of EHS and the EU could further apply EHS analysis and removal to take this issue forward in the future.

What do political economy and subsidy reform have in common?

- Power: vested interests and strong lobbies can be obstacles to reform.
- Politics: politicians do not want to risk alienating voters by making unpopular decisions.
- Parity: income inequality is growing, and this can be a huge block to reform.
- People: people are the motivation for change (we are ‘saving the planet’ for the sake of people) and thus should be taken into account in all reform efforts.

Regarding the methodology presented at the workshop, Ms Stevens considered it to be too complicated for ‘real’ people (i.e. decision makers, companies) to understand and

put into practice. She recommended keeping it simple, and keeping in mind people, resources and money.

Ms Stevens noted a few tweaks that would improve the recipe book including dividing it by sector, as suggested in earlier discussions, and indicating the level of complexity of assessment. She suggested starting with those subsidies that are the most important; although this is a politically sensitive issue, it is possible to determine intuitively which subsidies are a priority for reform. She stressed that subsidy reform is a political process and any assessment should be made with the political context in mind.

On the issue of presentation: Ms Stevens suggested assessing the environmental, economic and social impacts in equal measure and said that the subsidy identity card is a good idea.

Transparency and accountability are fundamental to sustainable development so inclusion of all stakeholders in this process is key – policy makers, NGOs, trade unions, academics – get them all involved. This can also aid implementation when you come up with recommendations.

3.5 Discussions

The intervention by Candice Stevens built on a topic that emerged during the morning session, namely whether to **confine the analysis to the assessment of the environmental impacts of EHS or whether to also analyse impacts on social and economic dimensions**. This carried on discussions on whether the tool should aim to provide a framework to analyse *all* subsidies from an integrated perspective.

It was suggested that looking at subsidies with an integrated approach, i.e. including the social and economic impacts, is paramount if policy makers want to persuade decision makers to act on reforming EHS. The economic argument is often considered as the strongest argument, who gains and who loses is very important. It was noted that in considering reform options and in suggesting reform, a horizontal approach should be taken. There was general agreement that in order to achieve reform an assessment of the impacts on the social dimension in particular would be necessary.

The discussion dwelled on whether the assessment should allow for an assessment of *all* subsidies. There were discussions on making the tool usable to identify all impacts (social, economic and environmental) in equal measure. It is however beyond the mandate of this study to devise a new methodology that would enable the analyst to assess a subsidy under all three sustainable development pillars.

The assessment of the social and economic dimensions is provided for (on the basis of the integrated assessment framework of the OECD) in the second phase (broader assessment) once it has been established that the subsidy is environmentally harmful.

At the workshop, various policy makes stressed the importance of the provision of information on the equity and competitiveness dimensions to support the reform process. The team considers the ‘broader assessment’ phase as an appropriate framework to collect information useful during the reform process.

Actions:

- The importance of sectoral co-benefits in EHS assessment and reform will be highlighted (e.g. in transport, removal of diesel or commuter subsidies might reduce congestion - leading to lower congestion costs and hence improving sectoral competitiveness). This is important to overcome objections to reform from sectoral lobbies.
- It is considered that a good qualitative description of the impacts on social indicators, political aspects and competitiveness would be sufficient for the purposes of this study in the broader assessment. This is the approach chosen by the team and will be consolidated in the final integrated tool (in the broader assessment).
- The broader assessment (including social and economic dimension) will be kept as a downstream process, following on from the screening.

Not to be included in this study:

- Experts suggested giving equal treatment to environmental, social and economic aspects from the start of the analysis. This would be crucial, it was argued, to convince economic ministries to act on EHS. This broadening is however outside of the scope of the study, which was meant to focus on EHS only. Thus while adequate consideration of social and economic aspects is considered to be key to pushing reform forward and will be included in a part of the assessment, the incorporation of such aspects to the extent suggested will be proposed as the topic for further work.

It was also suggested to develop the **recipe book** on a sectoral basis. Eurostat and Statistics Sweden however warned against choosing a sector-by-sector approach which would be different from the one they are trying to develop (presented by Viveka Palm in the morning session). The team considers the recipe book as going beyond the sectoral perspective of the size of subsidy calculation, and to provide a framework to calculate the size based on the type of subsidy with information available. Nevertheless, in further work, there is potential to link with the ongoing work presented on national accounts (however this is not in the mandate of our study).

Action:

- Make it clearer that we are trying to develop an approach that can be used for multiple sectors (even generalising from sector-specific guidance)

3.6 Conclusions by the Chair

(Manfred Rosenstock, DG Environment, European Commission)

Even though it would be conceptually better to have a truly integrated assessment, it was mostly agreed that the mandate of this study focuses on 'environmentally harmful subsidies'.

The proposed integrated tool, the recipe book and the subsidy identity card were considered useful instruments for the final version of the study. The feedback today should allow some small improvements to be made to better the study.

The Chair noted that it was good to hear what Member States have been doing on EHS in their own countries and that other Member States should be encouraged to do likewise.

Regarding the scope of the case studies, the Chair noted that it is difficult to generalise given that there are always specificities. Case studies can help in outlining general issues.

The potential need for transitional support to get on board those affected by the subsidy is worth remembering and it is worthwhile including those affected in the analysis and policy making.

Given the backdrop of the current economic crisis, it is good timing to act on EHS reform. There could also be potential to reform subsidies implemented as a 'solution' to the crisis.

The Commission follow up on this issue is still open; the study is a work in progress, in which the workshop is a milestone. The Chair noted that the study is not a position statement of the Commission but independent research from which the Commission hopes to draw conclusions and provide input for the issue when it is considered by the new Commission.

WORKSHOP AGENDA



Environmentally Harmful Subsidies – Identification and Assessment

A project for the European Commission's DG Environment
(IEEP with Ecologic and IVM)

Workshop Agenda

16 September 2009

Committee of the Regions, Room JDE 51
Rue Belliard 99-101, B 1040 Brussels

09:00 Registration

Morning session

09:30 Welcome

Robin Miège, Head of the Sustainable Development and Economic Analysis Unit, DG Environment; and roundtable introductions

9:40 Introduction to the project - Patrick ten Brink, IEEP

A) Tools for the identification and assessment of EHS

Chair: Florian Prange, Member of the Board, Green Budget Germany

9:50 The OECD the tools: the quick scan, the checklist and the integrated assessment - Wilfrid Legg, OECD

- Aims
- Applications
- Strengths and weaknesses
- State of the art and future work in OECD on the subject

B) Project results

10:10 Testing the use of OECD tools and recommendations for improvement

- Carolina Valsecchi, IEEP; Patrick ten Brink, IEEP

- Critical appraisal of the tools
- Recommendations for improvement
- A streamlined tool for the identification and assessment of EHS

10:40 Quantification of subsidies - *Aaron Best, Ecologic; Frans Oosterhuis, IVM*

- A recipe book for calculating the level of subsidisation

10:50 Communication tool - *Aaron Best, Ecologic*

- The subsidy ‘Identity Card’

11.05 Coffee (15 minutes)

11:20 Member States perspectives – methodologies used for the identification and assessment of EHS

- Experience from Germany - *Dr. Frauke Eckermann, Federal Environment Agency*
- Experience from Czech Republic - *Rut Bízková, Deputy Minister for the Environment*
- Experience from Sweden - *Viveka Palm, Head of Unit, Environmental accounts and natural resources, Statistics Sweden*

12:05 Discussion

- Q: Have you used the tools? Where are the OECD models most useful (and where not)?
- Q: What set of tools would be valuable for countries and where does a (potentially improved) OECD set of tools fit in?
- Q: Is the recipe book useful?
- Q: What would you add/ remove from the subsidy ‘Identity card’?

Lunch 13:00 to 14:00

Afternoon session

C) Project results: case studies on identification and assessment of EHS and possible policy responses

Chair: Robin Miège, Head of the Sustainable Development and Economic Analysis Unit, DG Environment

14:00 Recap of ambitions by the European Commission chair

14:15 Case studies in the energy sector

- Case study: VAT reductions for energy use in households in the UK - *Frans Oosterhuis, IVM*
- Case study: nuclear decommissioning subsidies in Germany - *Aaron Best, Ecologic*
- Fuel taxes exemptions for biofuels in Germany - *Sirini Withana, IEEP*

15:00 Case studies in the transport sector

- Fuel taxes: diesel vs petrol (comparison of the UK, Austria and the Netherlands) - *Aaron Best, Ecologic*
- Company car taxation in the Netherlands - *Carolina Valsecchi, IEEP*

15:30 Break (15 minutes)

15:45 Case study in the water sector

- Case study: Irrigation water subsidies in Spain - *Samuela Bassi, IEEP*

16:00 Discussion

- Q: What are the key messages emerging from the case studies?
- Q: Do you agree with the reform options identified in the case studies?
- Q: What are the possible policy responses?

D) EHS Reform

16:20 Elements for a successful reform - *Candice Stevens, consultant, formerly of OECD*

- OECD work on the political economy of reform
- Key elements for the success of a reform initiative

Discussions

- Q: What reform has worked and why?
- Q: Has reform been “one-off” or part of a strategy / road map?
- Q: What lessons for the development of road maps for reform?

Conclusions - *Robin Miège*

17:00 End

Timings and Practicalities

The meeting will commence with registration at **09:00 on 16 September 2009**. Discussions will conclude by 17:00 on the 16 September. The meeting will take place at the **Committee of the Regions: Jacques Delors building, Room JDE 51, Rue Belliard 99-101, B 1040 Bruxelles**.

WORKSHOP PARTICIPANTS

Workshop on the Identification and Assessment of Environmentally Harmful Subsidies: 16 September 2009: Brussels				
Name		Organisation	Position	E-mail
Samuela	BASSI	Institute for European Environmental Policy (IEEP)	Policy Analyst	sbassi@ieep.eu
Aaron	BEST	Ecologic	Senior Economist	aaron.best@ecologic.eu
Rut	BIZKOVA	Ministry of the Environment, Czech Republic	Deputy Environment Minister	Rut.Bizkova@mzp.cz
Claudia	DIAS SOARES (attended via teleconference)	Universidade Católica Portuguesa	Professor of Tax Law	soarescl1@gmail.com
Frauke	ECKERMANN	German Federal Environment Agency (UBA)	Section I 1.4 Environmental Economic and Social Issues	Frauke.Eckermann@uba.de
Marina Anda	GEORGESCU	European Commission - Eurostat	Eurostat	marina-anda.georgescu@ec.europa.eu
Mallika	ISHWARAN	Defra	Deputy Director, Environment and Growth Economics	mallika.ishwaran@DEFRA.GSI.GOV.UK
Katri	KOSONEN	European Commission - DG TAXUD	DG TAXUD	katri.kosonen@ec.europa.eu
Ariane	LABAT	European Commission - ECFIN	ECFIN	ariane.labat@ec.europa.eu
Kerryn	LANG	International Institute for Sustainable Development	GSI Research Officer	klang@iisd.org
Sylvie	LEFRANC	French Ministry for Ecology	Chef de bureau par interim	Sylvie.LEFRANC@developpement-durable.gouv.fr
Wilfrid	LEGG	Organisation for Economic Co-operation and Development (OECD)	Committee on agriculture	Wilfrid.LEGG@oecd.org

Megan	LEWIS	Institute for European Environmental Policy (IEEP)	Policy Analyst	mlewis@ieep.eu
András	LUKÁCS	Clean Air Action Group	President	lukacs@levego.hu
Robin	MIEGE	European Commission - DG ENV	Head of Unit: Sustainable Development & Economic Analysis	robin.miege@ec.europa.eu
Tanja	MUNCHMEYER	BIO Intelligence Service	Researcher	Tanja.MUNCHMEYER@biois.com
Sara	OCHELÉN	Environment, Nature and Energy Department, Flemish Government	Policy preparation and evaluation	sara.ochelen@lne.vlaanderen.be
Frans	OOSTERHUIS	Institute for Environmental Studies (IVM)	Senior Researcher	frans.oosterhuis@ivm.vu.nl
Viveka	PALM	Statistics Sweden	Head of Unit: Environmental Accounts and Natural Resources	viveka.palm@scb.se
Catherine	PEARCE	European Environment Bureau	Policy Officer	catherine.pearce@eeb.org
Jerzy	PIENKOWSKI	European Commission - DG ENV	DG ENV	Jerzy.PIENKOWSKI@ec.europa.eu
Jan	PIETERS	Formerly of the Netherlands Ministry for Housing, Physical Planning & Environment	Senior Economic Advisor	jan.pieters@introweb.nl
Florian	PRANGE	Green Budget Germany	Board member	florian.prange@gordis.de
Aldo	RAVAZZI	Italian Ministry for Environment, Land & Sea, former OECD Tax & Environment Co-Chair	Officer	aldo.ravazzi@tfambiente.it
Tilmann	RAVE	IFO: Institute for Economic Research, Department for Environment, Regions & Transport	Researcher	rave@ifo.de
Manfred	ROSENSTOCK	European Commission - DG ENV	DG ENV	Manfred.Rosenstock@ec.europa.eu
Thomas	SCHNEIDER	EURACOAL: European Association for Coal & Lignite	Head of International Affairs	Thomas.Schneider@gvst.de

Candice	STEVENS	Formerly of the OECD	Sustainable Development Advisor	canstevens@gmail.com
Patrick	TEN BRINK	Institute for European Environmental Policy (IEEP)	Senior Fellow and Head of Brussels Office	ptenbrink@ieep.eu
Adela	TESAROVA	European Commission - DG TAXUD	DG TAXUD	Adela.TESAROVA@ec.europa.eu
Michael	THONE	FiFo Köln	Managing Director	thoene@fif-koeln.de
Carolina	VALSECCHI	Institute for European Environmental Policy (IEEP)	Policy Analyst	cvalsecchi@ieep.eu
Cees	VAN BEERS	Delft University	Professor of Economics of Innovation	C.P.vanBeers@tudelft.nl
Lea	VATANEN	European Commission - SG	Secretariat-General	lea.vatanen@ec.europa.eu
Sirini	WITHANA	Institute for European Environmental Policy (IEEP)	Policy Analyst	swithana@ieep.eu
Peter	WOODERS	International Institute for Sustainable Development	Senior Economist	pwooders@iisd.org