

Reforming subsidies to support the Post-2020 Global Biodiversity Framework

Summary

- Many countries subsidise economic activities that are harmful to biodiversity. Countries should assess options to reform subsidy policies to avoid harmful impacts for biodiversity and to incentivise nature-positive outcomes.
- A major achievement on fisheries' subsidies reform was reached on June 2022, when the WTO Members agreed to curb subsidies to illegal, unreported and unregulated fishing and fishing on overfished stocks and in the unregulated high seas.
- Reforming subsidies comes with trade-offs that need to be considered and can be challenging to overcome. Regardless, measures can be taken to reform subsidy policies.
- Successful subsidy reforms are critical to resource mobilisation to implement the GBF.

Background

The Post-2020 Biodiversity Framework is expected to be adopted during the UN Biodiversity Conference to be held in December 2022. Target 18 of the framework proposes to redirect, repurpose, reform or eliminate incentives harmful for biodiversity, reducing them by at least US\$ 500 billion per year, including all of the most harmful subsidies, and ensure that incentives, including public and private economic and regulatory incentives, are either positive or neutral for biodiversity.

Many countries implement policies and spend large amounts of resources to subsidise economic activities that are harmful to biodiversity. By further incentivising such activities, environmental harms are amplified from what they would be in the absence of subsidies.

Instead of encouraging generation of environmental harm through subsidies, countries should assess options to reform subsidy policies to neutralise their effects on biodiversity or even find ways to reform subsidies so that they incentivise conservation and sustainable management of nature. Successful subsidy reforms are critical to the resource mobilisation needed to implement the GBF.

What is the issue?

Agriculture subsidies

Currently, as estimated by the International Food Policy Research Institute (IFPRI) and the World Bank, net economic support to agricultural producers is estimated to be at least US\$638 billionⁱ.

Total support to agricultural producers can be classified using three main categories:

- 1) Producer support: US\$460 billion (72% of total)
- 2) Consumer support: US\$70 billion (11% of total), including support for consumer food purchases and food distribution programs
- 3) Public good services: US\$108 billion (17 percent of total), including research & development and infrastructure development (mostly irrigation).

Most producer support is associated with production distorting transfers, meaning that the production output or input use, including land, is different than it would be without the subsidyⁱⁱ. Within the class of production distorting support, trade barriers in the form of trade restrictions, such as import tariffs and other border measures are most prevalent (33.2%). Subsidies linked to the volume of production output (11.5%) or input use (13.5%) are also both considerable, and known for their potentially detrimental impacts on the environment (Table 1).

Table 1: Total Annual Support to Agriculture, US\$ billions (on average, per year, 2016–18, for 79 Countries for which data are available)

Total Annual Support	US\$ (billion)	% of Total
Producer support	460	72.0%
Trade barriers	212	33.2%
Output subsidies	73	11.5%
Input subsidies	86	13.5%
Decoupled transfers	60	9.3%
Green subsidy	29	4.5%
Consumer Support	70	11.0%
Public Goods and Services	108	16.9%
Total	638	100%

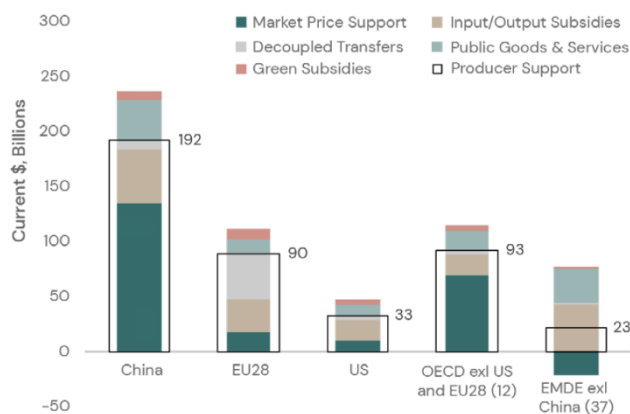
Source: Based on Gautam et al. ⁱ

The remaining producer support comes in the form of decoupled subsidies (9.3%) or “green” subsidies (4.5%). Decoupled subsidies, by definition, are subsidies that are not distorting production output, input use, or trade. Green subsidies, on the other hand, are transfers that incentivise environmentally friendly practices. They are channeled through various instruments, such as subsidies to promote less-polluting inputs or to encourage production with fewer negative externalities, or as payments for resource conservation or land set-asides.

The level and type of support varies significantly across countries (Fig. 1). Distortionary producer support remains the most dominant form of support in most countries. However, several emerging markets and developing economies also implicitly tax their producers by keeping domestic price for key commodities below the world market. These appear as negative values in Fig. 1. Green subsidies are emerging, but the evidence shows that except in China, they are mostly offered only in the developed countries.

Figure 1: Agricultural support across main countries and country groupings, 2016–18

Source: Gautam et al.ⁱ



Fossil fuel subsidies

Fossil fuel subsidies are environmentally harmful, costly, and distortive. They not only undermine global efforts to mitigate climate change, but also aggravate local pollution problems, causing further damage to human health and the environment.ⁱⁱⁱ Explicit subsidies—denoting the degree to which the retail price of fuel remains below the cost of production—peaked in 2018 at US\$760 billion, declined to US\$450 billion in 2020, but are expected to remain at about US\$600 billion from 2021 to 2025^{iv}.

Fluctuations in the amount of explicit fuel subsidies are largely driven by changes in international oil and natural gas prices. When international fossil fuel prices fall, the gap between the supply costs, which depend on international prices for traded products, and domestic prices in countries where domestic fuel prices are regulated, is smaller.

In addition to explicit subsidies, fossil fuels are associated with a large implicit subsidy that arises from the failure of the retail price of fuel to include its full social cost, including the cost of externalities such as detrimental impacts of fuel use on climate change due

to GHG emissions and human health due to air pollution. When accounting for both explicit and implicit subsidies, IMF estimates that the global fossil fuel subsidies total to a staggering US\$5.9 trillion, or about 6.8 percent of global GDP^{iv}. Note, however, that the implicit subsidy comprises largely of economic impacts only partially if at all included in the market prices or government or private expenditures, limiting options to repurpose the subsidy, as no actual spending is associated with it. Regardless, the high implicit subsidy associated with the use of fossil fuels provides strong evidence in support of eliminating the subsidy.

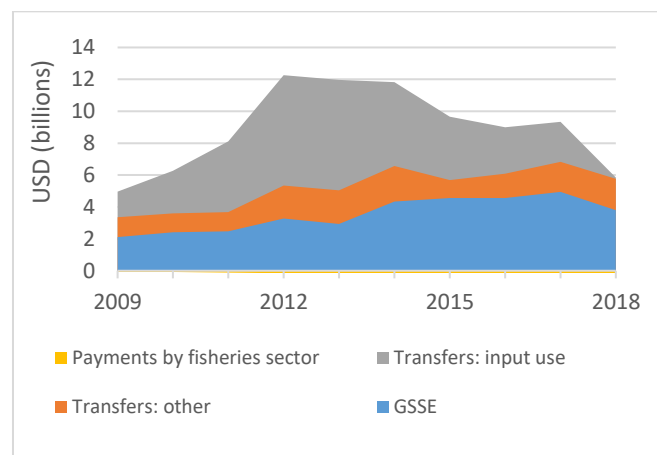
Fisheries subsidies

Using data from 40 countries, the OECD estimated fisheries support to be US\$9 billion (average annual 2016 – 2018) (Fig. 3)^v. This was offset by payments by fisheries sector of about US\$0.9 billion, leaving US\$8.9 billion in net support, representing around 11% of total value of marine landings. Of the 40 countries considered, 18 are part of the top 25 major producing countries of marine capture^{vi}.

Many of the fisheries subsidies are harmful to the long-term viability of the sector, and can lead to overfishing and over-exploitation of fishery resources^{vii}. They consist of policy instruments such as support for cheaper fuel, gear and shipping vessels. Access to these types of inputs at below market rates increases fishing activity and can ultimately lead to depletion of fish stocks, lower fishing yields, and decreased incomes for the fishing sector. In the end, these subsidies also tend to favor larger fishers, not the smaller, traditional fishers who are most vulnerable.

Around one half of total support to fisheries sector comprises direct transfers to individuals or companies. The rest of the support was provided in the form of support to general services (GSSE), mainly fishery protection services and fisheries management (Fig. 2).

Figure 2: Budgetary support to fisheries as a share of value of landings 2015



Source: Based on data from OECD

A major achievement on fisheries’ subsidies reform was reached on June 2022, when World Trade Organization Members adopted the *Agreement on Fisheries Subsidies to end prohibited fisheries subsidies*^{viii}. The agreement curbs subsidies to illegal, unreported and

unregulated fishing and prohibits them to fishing overfished stocks and in the unregulated high seas.

What can be done?

Measures can be taken to reduce, redirect and even altogether eliminate subsidies to avoid harmful impacts on biodiversity and to incentivise nature-positive outcomes. Nevertheless, reforming subsidies comes with trade-offs that need consideration and can be challenging to overcome. For example, subsidies regularly come in the form of market price support implemented through trade barriers. These subsidies do not involve direct government expenditures to producers; rather, the subsidy materializes in the form of domestic producer and consumer prices that are higher than the world market price for the same product.¹ In practice, a subsidy of this kind is a transfer paid through elevated market prices by consumers. While reforming market price support to become environmentally positive is justified on both environmental and economic grounds, it often involves difficult political challenges, including distributional and other socioeconomic impacts.

Reducing and redirecting agricultural subsidies that are harmful to the environment

It has been estimated that removing all the subsidies directly linked to outputs, inputs, or factors of production such as land area (US\$160 billion per year), could help save 27 million hectares of land otherwise converted to agriculture (49% of the projected conversion of land to agriculture by 2040) and reduce 1.5% of total agricultural GHG emissions.ⁱ

If subsidies could be redirected towards investments in technologies that both improve productivity and reduce emissions, more than 100 million hectares of agricultural land could be released by 2040 for restoration to natural habitat and overall emissions from agriculture could fall by more than 20 percent.ⁱ

Reducing and eliminating fossil fuels subsidies

The energy and climate ministers of the G7 countries pledged in May 2022 to end new direct public support for the fossil fuel energy sector by the end of 2022^{ix}. This could shift about US\$ 33 billion per year from fossil fuels to clean energy sources. However, this amount is still far from the roughly US\$ 600 billion annual explicit subsidy, and the total US\$5.9 trillion subsidy, to fossil fuels estimated by IMF.^{iv}

Much more should be done to reform fossil fuel subsidies. One challenge here is that 68 percent of support to fossil fuels in OECD countries is embedded in consumer support^x. Similarly to many agricultural subsidies, this form of subsidy does not come in the form of direct transfer to producers that can be re-

allocated to other sectors. Instead, the subsidy is diffused across the economy, with considerable social and political implications, including poor households for whom fossil fuels take a large share of available income.

Reforming fisheries support from subsidies to reducing operating costs to improving fisheries sustainability and economic efficiency

The *Agreement on Fisheries Subsidies to end prohibited fisheries subsidies* adopted by World Trade Organization members is a major achievement to reduce harmful subsidies. For this agreement to be effective, member states need to ratify it and accelerate its implementation.

In addition, the scope of the fisheries agreement needs to be extended to cover all harmful subsidies, not just those targeting illegal, unreported and unregulated fishing and fishing overfished stocks on high seas.

Sustainable production of seafood requires engaging fishery stakeholders and businesses throughout the supply chain. Repurposing subsidies currently in place to provide cheaper fuel, gear and shipping vessels to instead improve the profitability of fishing operations, including supporting capital markets or increasing the business skills of fishers, offers effective ways to benefit fishers with little tendency to increase fishing effort or overinvest in fishing vessels.

Payments that target incomes in the fishing sector, including employment insurance and disaster payments, are approaches that are also available to support fishers without creating adverse impacts on the fishery. For example, it has been estimated that if \$5 billion in fuel support was converted into non-harmful support, it may be possible to increase fisheries income by more than \$2 billion while simultaneously improving fish stocks^{vii}.

For more information contact:

Juha Siikamaki
IUCN Chief Economist
Centre for Economy and Finance
juha.siikamaki@iucn.org

IUCN World Headquarters
Rue Mauverney 28
1196 Gland
Switzerland
Tel: +41 22 999 0000
Fax: +41 22 999 0002
www.iucn.org

¹ In fact, the difference between the domestic and world market prices is a standard measure of the subsidy.

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