

Subsidies & SDGs: Understanding the Linkages

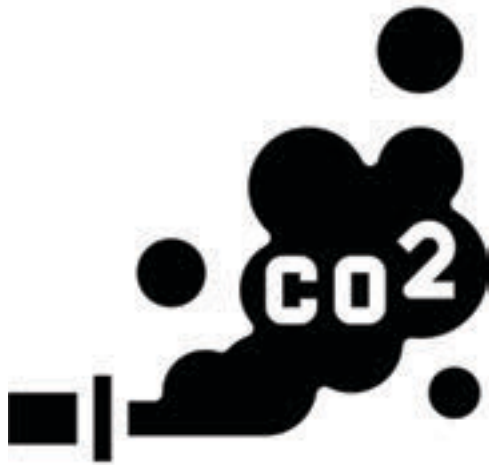
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International Institute for Sustainable Development
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The world is facing many challenges

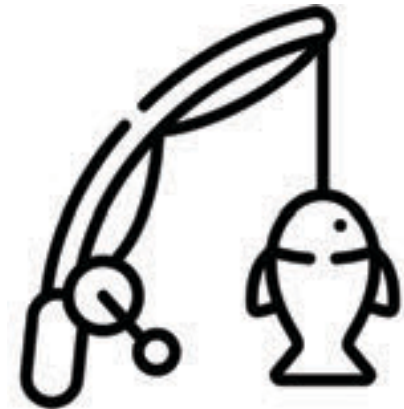
Rising Emissions



Hunger



Overexploitation of natural resources





And there is something common to all these challenges...

Rising Emissions



Hunger



Overexploitation of natural resources





...SUBSIDIES

Definition of Subsidies According to the WTO

The Agreement on Subsidies and Countervailing Measures (ASCM) of the WTO is binding for its 164 members, including India (as of June 11, 2017). It applies to all subsidies and has no provisions specific to the energy sector. From Article 1: Definition of a Subsidy (bold text added by this document authors):

1.1 For the purpose of this Agreement, a subsidy shall be deemed to exist if:

(a)(1) there is a financial contribution by a government or any public body within the territory of a Member (referred to in this Agreement as “government”), i.e. where:

- (i) a government practice involves a direct transfer of funds (e.g. grants, loans, and equity infusion), potential direct transfers of funds or liabilities (e.g. loan guarantees);
- (ii) government revenue that is otherwise due is foregone or not collected (e.g. fiscal incentives such as tax credits)(1);
- (iii) a government provides goods or services other than general infrastructure, or purchases goods;
- (iv) a government makes payments to a funding mechanism, or entrusts or directs a private body to carry out one or more of the type of functions illustrated in (i) to (iii) above which would normally be vested in the government and the practice, in no real sense, differs from practices normally followed by governments;

or

(a)(2) there is any form of income or price support in the sense of Article XVI of GATT 1994; And

(b) a benefit is thereby conferred.

Source: WTO, 1994

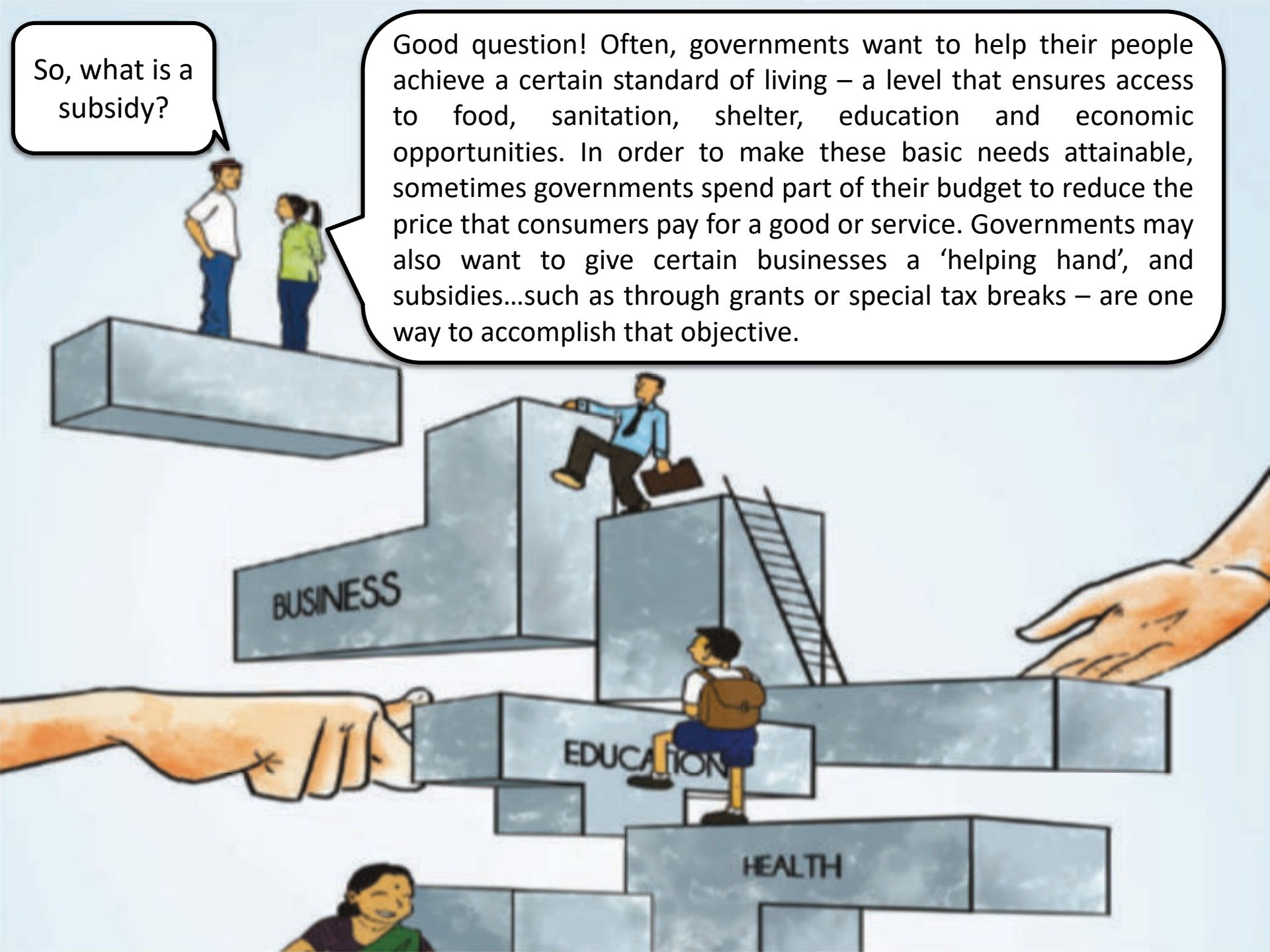
aka policies that affect prices of goods - and prices drive producer and consumer decisions



Why do countries have subsidies?

So, what is a subsidy?

Good question! Often, governments want to help their people achieve a certain standard of living – a level that ensures access to food, sanitation, shelter, education and economic opportunities. In order to make these basic needs attainable, sometimes governments spend part of their budget to reduce the price that consumers pay for a good or service. Governments may also want to give certain businesses a 'helping hand', and subsidies...such as through grants or special tax breaks – are one way to accomplish that objective.





Are subsidies the best use of public money?

ECONOMIC

- Subsidies are costly and inefficient – as many benefits go to higher income households
- Subsidies distort playing field
- Subsidies can create opportunities for corruption

SOCIAL

- Subsidies are discriminatory for poor producers
- Subsidies lead to higher emissions that have health impacts on the population
- Subsidies create unfair incidence

ENVIRONMENTAL

- Subsidies lead to resource depletion and add to emissions

Subsidies



Subsidies globally for energy, agricultural and fish are at least US\$ 900 billion*

- Fossil Fuel Subsidies totaled US\$ 400 billion
- These encourage greater consumption and production of fossil fuels and emissions



- Agriculture Subsidies totaled US\$ 504 billion
- These subsidies distort markets and impact food security and poverty



- Fisheries Subsidies totaled US\$ 35 billion
- Harmful fisheries subsidies lead to overfishing and impacting marine ecosystems



Let's focus on TWO of these areas – Energy and Fish

*this figure is only a simple approximation and does not accurately take in to account any double counting of subsidies that may be common between these three areas

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Are governments across the world doing something to limit these harmful subsidies?

A little, but they can do more!

Subsidies



Let's examine **fossil fuel subsidies** in more detail

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What are fossil fuel subsidies?



Consumer subsidies



Coal



Petroleum

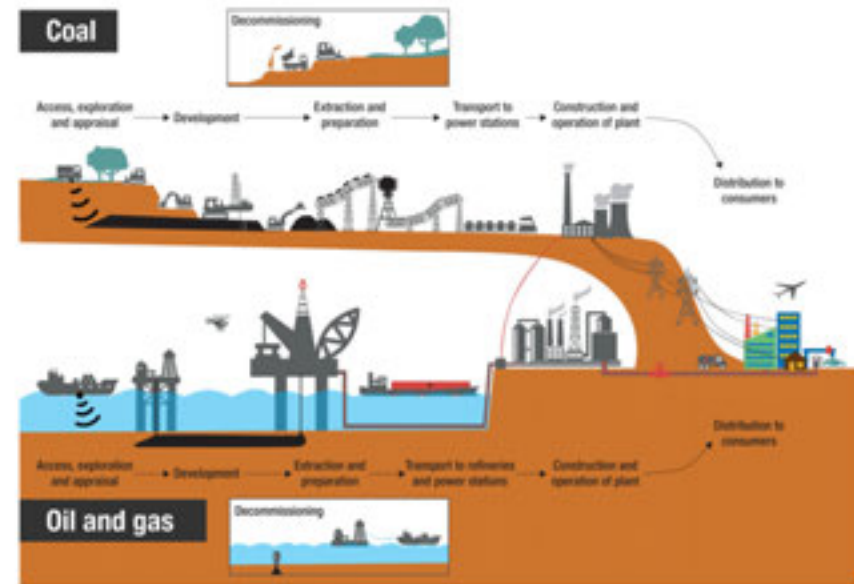


Electricity



Gas

Producer subsidies



Source: ODI & OCI, 2015

More than USD 400 billion in 2018

<http://www.iisd.org/library/making-switch-fossil-fuel-subsidies-sustainable-energy>

Development implications of fossil fuel subsidies



Subsidies to fossil fuels supports their consumption and burning fossil fuels adds to greenhouse gases; 6-8% of global greenhouse gas (GHG) emission reduction can take place by 2050 through fossil fuel subsidy reform



Fossil fuel consumer subsidies are motivated with a desire to assist the poor access energy but evidence suggests subsidies are poorly targeted and often captured by the rich



Subsidising fossil fuel extraction leads to “carbon lock-in” blocking investments in capital intensive infrastructure and locking in fossil fuel dependence

What is the attitude of governments towards fossil fuel subsidies?



In 2009-10: fossil fuel subsidy and its reform becomes a frequent topic on international agendas

In 2009 – G20 leaders and the Asia-Pacific Economic Cooperation (APEC) forum announced a commitment to rationalize and phase out fossil-fuel subsidies

International organisations boost research on fossil fuel subsidy reform

In 2012, the Rio+20 is held and there is increased push for the reform of fossil fuel subsidies

Finally in 2015, SDGs are announced with subsidy commitments

SUSTAINABLE DEVELOPMENT GOALS



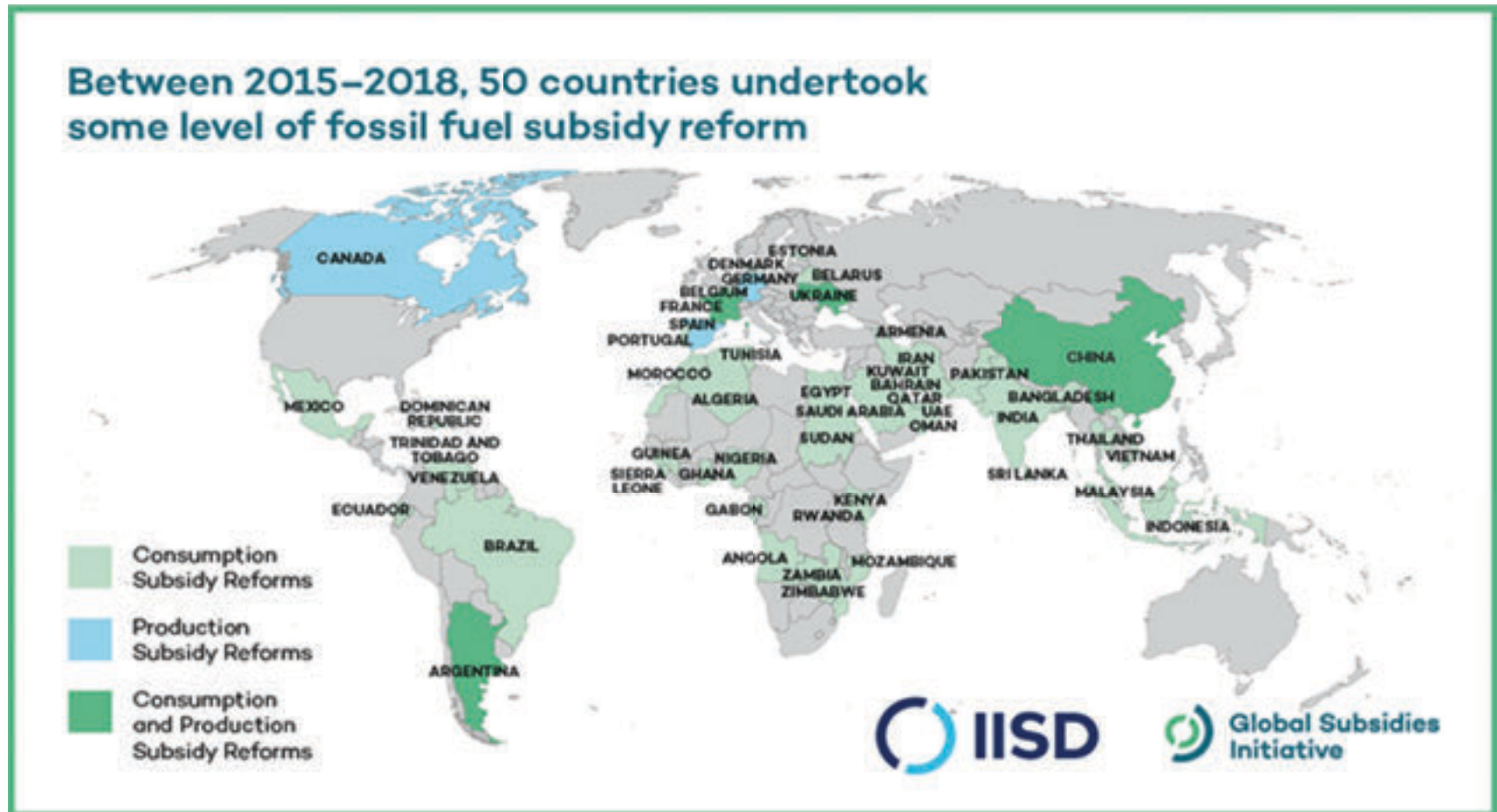
Fossil fuel subsidies in SDGs are announced with other subsidy commitments too:

- SDG 2.5: Reform agricultural export subsidies
- SDG 12.c: Rationalize inefficient fossil fuel subsidies
- SDG 14.6: Reform harmful fisheries subsidies

Has there been progress?

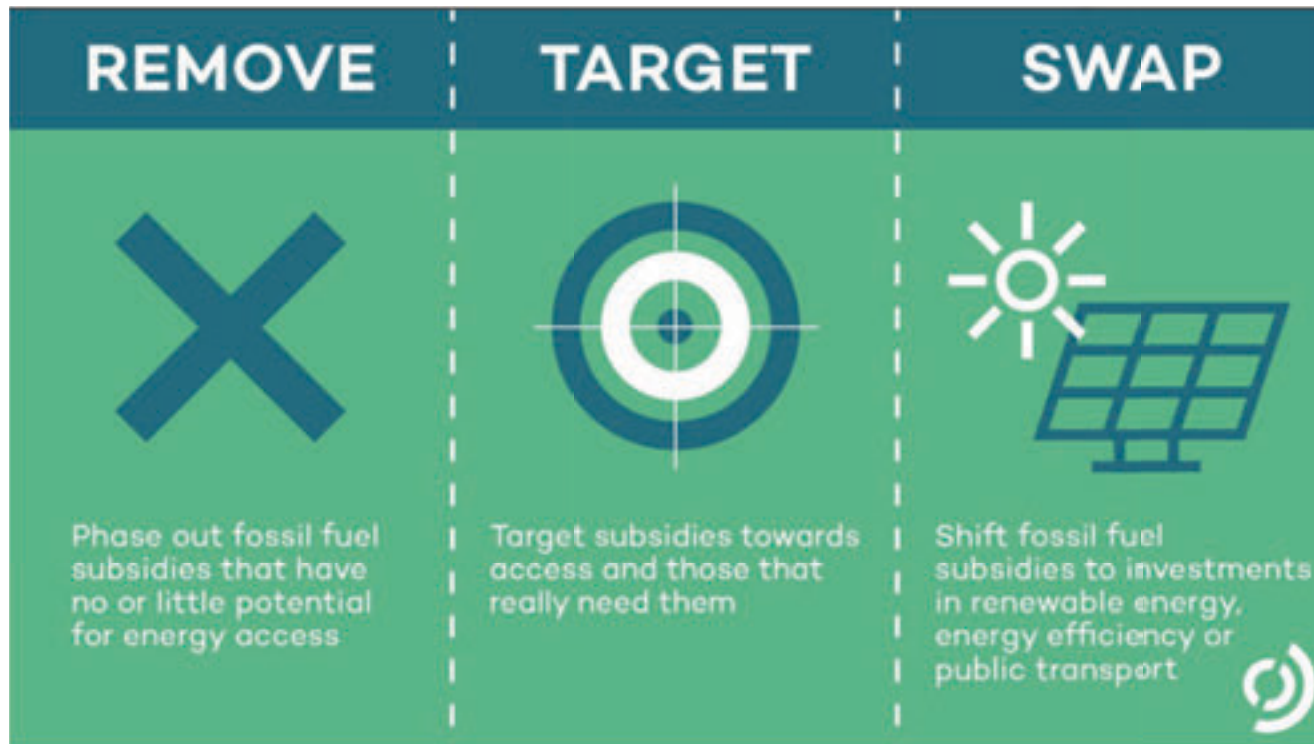


Many countries have initiated subsidy reform



Source: <https://www.iisd.org/gsi/subsidy-watch-blog/fossil-fuel-subsidies-and-reform-on-the-rise>

Where should subsidy savings go?

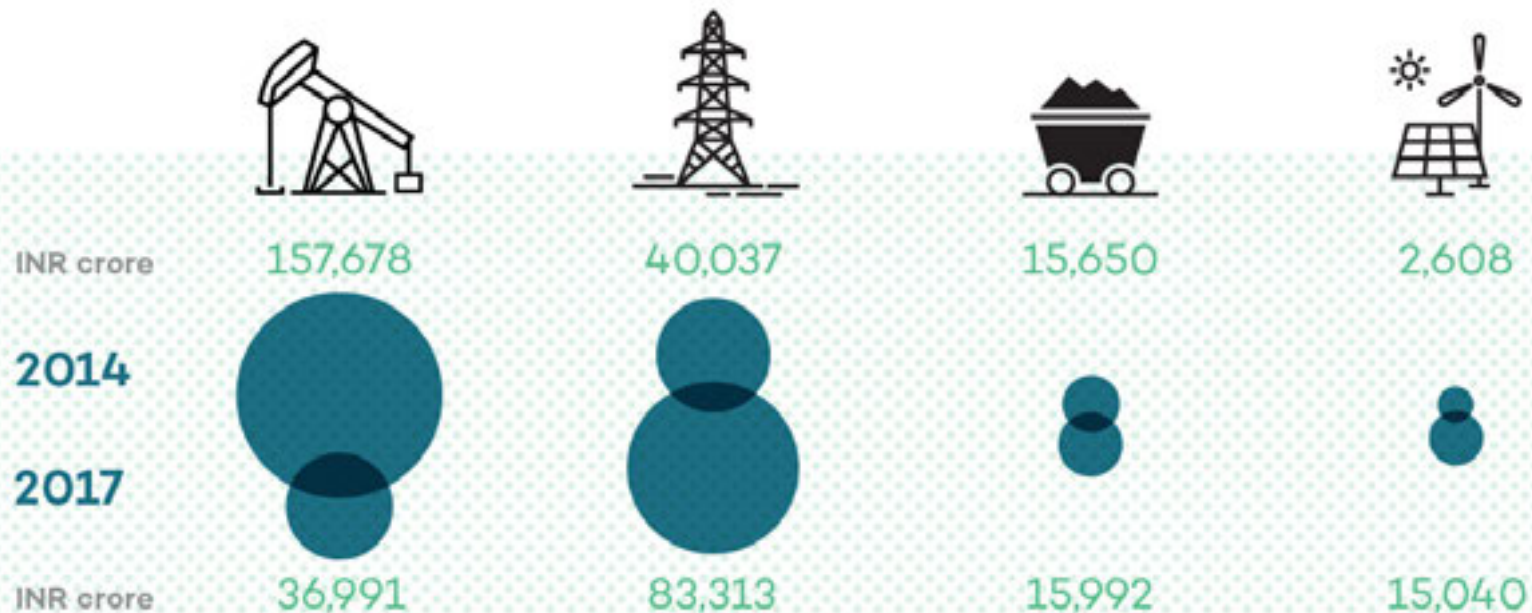


<https://www.iisd.org/sites/default/files/publications/getting-target-accelerating-energy-access.pdf>

Focus: Energy Subsidy Reform in India

Let's examine fossil fuel subsidies in India more closely

Big shifts in India's energy subsidies from 2014-2017 (INR crore)



Focus: Energy Subsidy Reform in India

Let's examine fossil fuel subsidies in India more closely

- India is an inspiring case study on reforming fossil fuel subsidies
- India's oil and gas subsidies, the largest recipient of government subsidies, declined by 75% from FY2014 to FY2017
- But there is a room to undertake more reform – look out for our latest report next month where we will reveal the size of India's fossil fuel subsidies and how they compare to subsidies for renewable energy
- India is a good example of a fossil fuel subsidy “swap” where one inefficient fossil fuel subsidy has been reduced, while support levels have increased for more modern and cleaner alternatives

Subsidies



Let's examine **fisheries subsidies** in more detail

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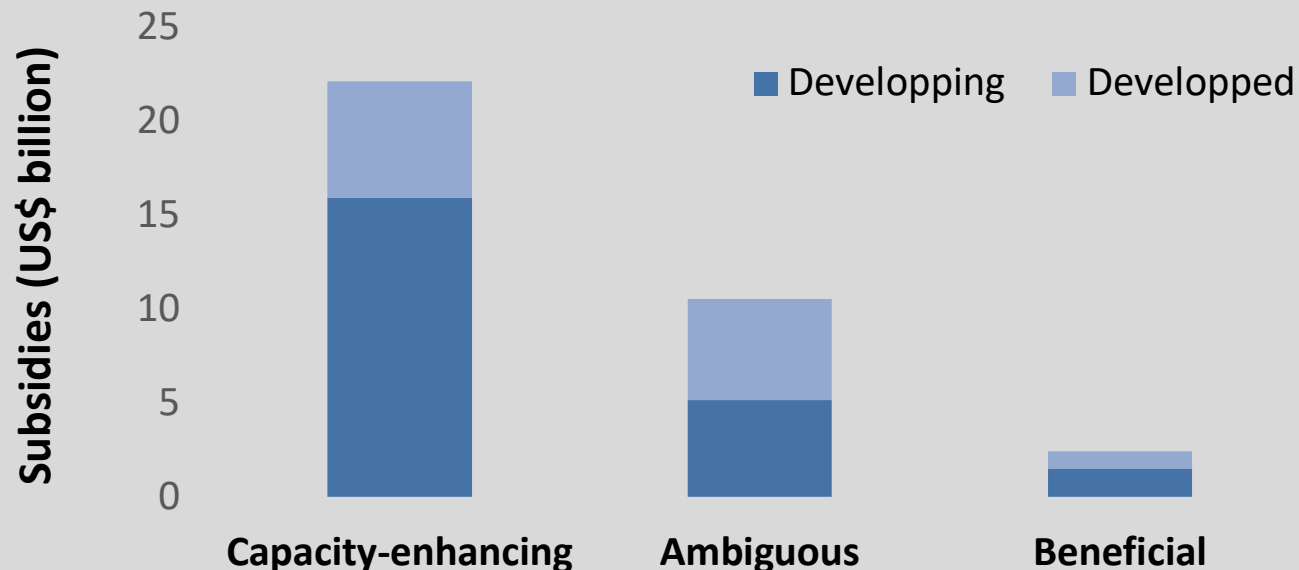
Focus: Fisheries Subsidies

Global fisheries suffer from severe **overfishing**, which manifests in a variety of ways:

- The **biomass** of fish species used for human consumption has significantly declined
- The **status** of global marine fish stocks is worsening
- A decline in the **productivity** of fishing worldwide

Focus: What about fisheries subsidies?

- Fisheries **subsidies** contribute to **unsustainable levels** of fishing worldwide
- They artificially **lower the costs** of fishing → often increase levels of fishing
- Not all subsidies have the same impacts



Development implications of harmful fisheries subsidies

- A threat to the **livelihoods, food security and economic development interests** in developing countries and LDCs who rely on fishing and fishing-related activities
- A few concrete numbers:



Fish represents more than 50% of average animal protein intake in some developing countries and LDCs



Fisheries are estimated to support a total of 260 million jobs worldwide, 78% of which in developing countries



In 16 LDCs, fishery exports are in the top five merchandise exports



Healthy fisheries are crucial for realising the SDGs

A call for raising ambition



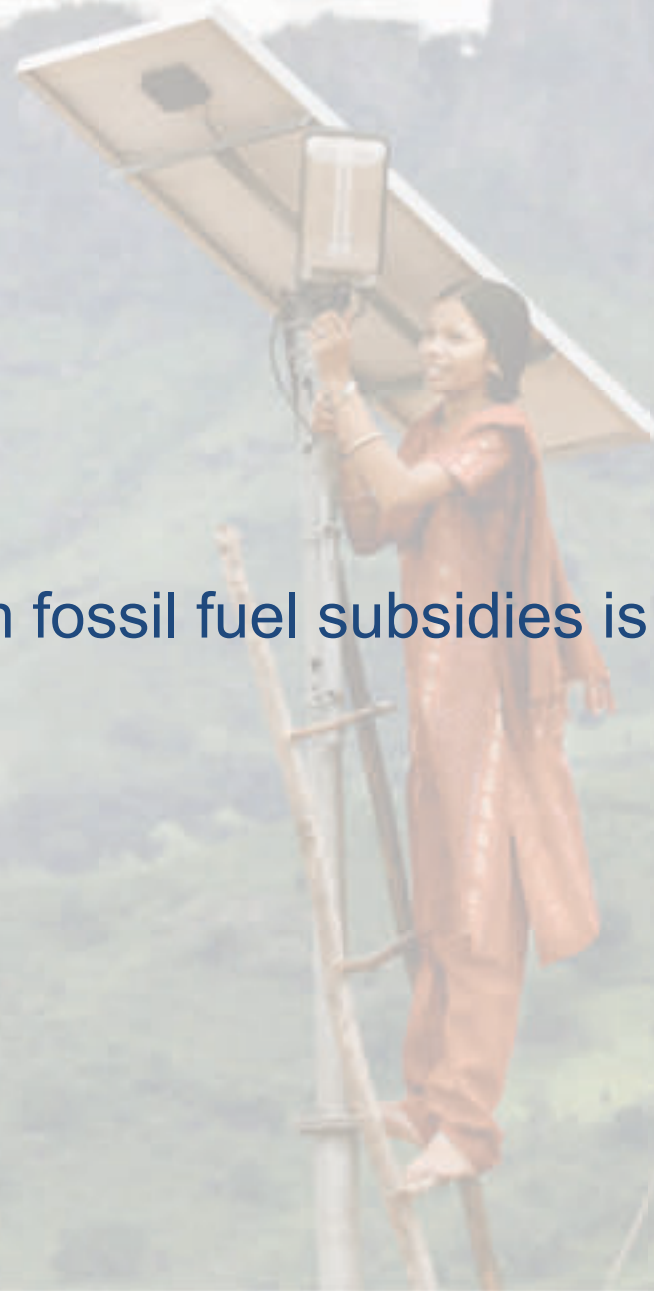
A call for raising ambition



- Stop funding fossil fuels: In 2016, G7 countries agreed to phase out fossil fuel subsidies by a deadline of 2025. But G7 countries provided about USD\$100 billion in fiscal support and public finance for fossil fuels each year. G20 countries still subsidise coal, oil and gas to the tune of around USD 150 billion
- Encourage fossil fuel subsidy “swaps”: Governments can consider reduce expenditure on fossil fuel subsidies and re-invest those savings in 1) protecting vulnerable groups impacted by subsidy reform and 2) investing in sustainable energy and fisheries
- Push the WTO for an outcome on fisheries subsidies: WTO negotiations on fisheries subsidies have been on-going for nearly 2 decades without any meaningful success. A meaningful WTO agreement could significantly contribute to steer global fishing activity in a more sustainable direction.



The time to review and reform fossil fuel subsidies is now!





THANK YOU

For more information

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What We Do

Consumer Fossil Fuel Subsidies

Producer Fossil Fuel Subsidies

Renewable Energy Subsidies & Fossil Fuel Exit

Energy Subsidies & Trade

Energy Subsidies & Gender

Fossil Fuel Subsidies & Sustainable Development

Energy Subsidies Data

Fossil Fuel Subsidies & Climate Change

Fossil Fuel Subsidy SWAPs

Fossil Fuel Subsidies & Health

Fossil Fuel Subsidies & Social

Placing a Spotlight on Subsidies

GSI programs and research place a spotlight on subsidies and the corrosive effect they have on economic development, governance and environmental quality. We work with governments and partners to help remove subsidies that work against sustainable development.

FOCUS AREAS >

PROJECTS >

- www.iisd.org/gsi
- Part of independent, non-profit org. **International Institute for Sustainable Development (IISD)**
- **Aim:** Provide research and dialogue on understanding and improving subsidy policies—particularly for fossil fuels—in order to transform pace of change to sustainable development.
- **GSI's scope:** **International** fora (WTO, UNFCCC, G-20, SDGs); and **national** work with **governments, research institutes** and **CSOs**