

# Environmentally harmful subsidies



[Kris.bachus@hiva.kuleuven.be](mailto:Kris.bachus@hiva.kuleuven.be)



*Centre of expertise for sustainable development*



# Outline

1. EHS and EFR
2. Definition and typology EHS
3. Measuring EHS
4. Casestudy: Flemish agriculture

# 1. EHS and EFR

**Type of fiscal instrument**  
subsidy ————— tax

<b>Environmental effect</b> friendly ————— harmful	<b>Env. Friendly subsidies;</b> <i>e.g. solar energy</i>	<b>Env. Related taxes</b> <i>e.g. CO<sub>2</sub>-tax</i>
	<b>Env. harmful subs.</b> <i>e.g. certain agricultural subsidies</i>	<b>Env. Harmful taxes</b> <i>Non-existent?</i>



## 2. Defining environmentally harmful subsidies (EHS)

- What is a subsidy? What is environmental harmfulness?
- *Any measure that keeps prices for consumers below market levels, or for producers above market levels, or that reduces costs for consumers or producers.*
- *A subsidy is harmful to the environment if it leads to higher levels of waste and emissions, including those in the earlier stages of production and consumption, than what would be the case without the support measure*



# A typology of subsidies

WTO:

1. Direct transfers
2. Tax expenditures:
  - Concessions that fall outside a tax norm
  - Exemptions, tax allowances, preferential tax rates, tax deferral
  - E.g. preferential VAT-rate of 6%
  - Preferential excise taxes for diesel fuel
3. Provision of goods or services below cost

### 3. Measuring EHS

- Direct transfers: relatively easy
- Tax expenditures: revenue forgone
- OECD-checklist: rough idea of harmfulness
- includes:
  - Policy filter: other policy instruments
  - Are environmentally friendly alternatives available?
  - Does the subsidy increase production?
    - Subsidies on output more significant than input, which is more significant than income



## 4. Casestudy on agriculture in Flanders

- Pillar I ‘direct payments’
  - Partially increasing production, better than ‘old’ system
  - Further decoupling and evolution to income support
  - Allocation based on historic subsidies
  - Cross compliance added
- Pillar II Rural development
  - EU avg. 65% to agri-environmental schemes (AES), Flanders only 25% (minimum)
  - AES: effectiveness varies between measures