WORLD TRADE ORGANIZATION

INF/TE/SSD/W/29

6 September 2023

(23-5986)

Page: 1/8

Original: English

TRADE AND ENVIRONMENTAL SUSTAINABILITY STRUCTURED DISCUSSIONS

INFORMAL WORKING GROUP ON SUBSIDIES

Compilation of experiences and considerations regarding subsidy design

Contents

1 INTRODUCTION 1

2 AGRICULTURAL SUBSIDIES 1

3 SUBSIDIES RELATED TO THE TRANSITION TO A LOW-CARBON ECONOMY 4

4 TRANSPARENCY 7

1 INTRODUCTION

1.1. In line with the 2021 TESSD Ministerial Statement (WT/MIN(21)/6/Rev.2) and the 2022 TESSD Work Plan (INF/TE/SSD/W/17), Members have carried out discussions on the environmental effects and trade impacts of relevant subsidies, related transparency issues and the role of the WTO in the Informal Working Group on Subsidies.

1.2. Following the TESSD High-level Stocktaking event in December 2022 and the related Statement by the TESSD Co-Convenors (INF/TE/SSD/W/21), Members have also shared experiences in subsidy design and considered how to enhance transparency and data availability, focusing on agricultural subsidies and subsidies related to the transition to a low-carbon economy.

1.3. This document provides a compilation of Member experiences and considerations with subsidy design based on discussions in the meetings of the Informal TESSD Working Group on Subsidies on 16 March and 10 May 2023.

2 AGRICULTURAL SUBSIDIES

2.1. Agricultural subsidies were discussed in the meeting on 16 March. In discussing environmental effects and transparency, Members acknowledged the complexities of agricultural subsidies and their effects on the environment and underlined the importance of moving to less distorting and environmentally harmful forms of subsidies.

2.2. Members also shared their experiences on subsidy design and discussed the following questions:

- How do you consider possible environmental effects and trade impacts in the design of agricultural subsidies?
- What kind of agricultural subsidies can be beneficial to the environment?
- How do you balance environmental and trade considerations?

2.3. Table 1 provides a compilation of experiences shared by Members in the form of presentations or as part of their interventions.

Table 1. Experiences with the design of agricultural subsidies

Brazil: Subsidies and Environmental Sustainability of Brazilian Agriculture
Brazilian Agricultural Policy aims to strengthen sustainability in its three dimensions – economic, social and environment, and its goals, inter alia, include increase productivity; reduction of GHG emissions; prevention of losses in agricultural production; rationalization of the use of natural resources and inputs; soil recovery and conservation; improving the quality and health of agricultural production; treatment of manure and agricultural residues and reforestation. Agricultural productivity has been increasing in Brazil over time also thanks to double cropping.
Environmental sustainability has guided agricultural policy for decades, including the Agriculture Climate Risk Zoning policy and the Low Carbon Emission Agriculture Plan (ABC). The ABC Plan aims to spread environmentally friendly technologies, while the ABC program provides access for environmentally sustainable financing (among other options). The Brazilian Forest Code establishes minimum limits for environmental preservation in rural properties. While the area used for farming has been increasing, it only covered around 31% of Brazilian territory in 2021, compared to a forest area of close to 60%.
Credit subsidies are the main input subsidy instrument, representing less than a third of resources raised by farmers and less than 1% of the value of agricultural production. Environmental sustainability is an essential requirement for accessing resources. Production has grown at an accelerated pace, contrasting with the reduction of subsidies, which demonstrates the economic sustainability of Brazilian agriculture. Instruments such as ecological economic zoning and agricultural climate risk zoning are fundamental for increasing environmental sustainability. There is a need to associate financing for sustainable production with financing for the recovery of ecosystems, i.e. payment for environmental services.
Costa Rica: NAMA Café and Payment for Environmental Services
The NAMA Café initiative seeks to promote low-emission and sustainable coffee production and processing in Costa Rica, through the adoption of low-emission technologies and the efficient use of water and energy. An incentive mechanism by the Costa Rican Coffee Institute (ICAFE) allows NAMA café beneficiaries to receive a monetary contribution for a maximum of three investment projects of up to 10% of the investment. Incentives might be obtained for technologies related to wet and dry milling, by-product treatment system, or use of renewable energy, among others.
The National Fund for Forest Financing finances forest management for the benefit of SMEs. The Fund also includes a Programme for Payment of Environmental Services (PPSA) drawing its funding from a single fuel tax, of which 3.5% is allocated to PPSA which guarantees the sustainability of the Program. Other financial contributions can be received from the Government and international development financing. The development of these programs entails an exhaustive process of consultation at the domestic level with government sectors and entities, including the Ministry of Foreign Trade, which ensures that any state policy adheres to the rules of the multilateral trade system and international law.
European Union – Environmental dimension of the EU's Common Agricultural Policy (CAP)
Since 1980, the EU's CAP gradually shifted from price support, to coupled producer support to decoupled support. Around 85% of EU farm supported currently falls into the WTO green box. EU agriculture has seen decreasing trends in GHG emissions (19% lower in 2017 vs. 1990), in antibiotic sales for animal production (40% lower in 2020 vs. 2011), and in chemical pesticides. Organic farming is increasing accounting for 9% of utilised agricultural land in 2020. Challenges remain, in particular regarding biodiversity, water quality, soil erosion, and ammonia emissions. By placing requirements on farmers, the CAP provides a baseline protection for the environment on more than 80% of EU's agricultural land, while targeted voluntary commitments cover 15% of land.
The CAP aims to achieve the right balance between economic, social and environmental objectives. The new CAP (2023-2027) includes enhanced conditionality regarding climate and environmental requirements which are mandatory for farmers. Eco-schemes and environmentally friendly rural development interventions provide additional incentives for voluntary practices beyond conditionality. The new CAP includes a needs-based, targeted

approach to addressing environmental and climate objectives, includes a no backsliding clause in terms of environmental ambitions, and provides for different mechanisms to ensure alignment with the EU Green Deal.
Paraguay: Good Agricultural Practices In Paraguay, about 65% of farms carry out some soil management and conservation practices, of which 64% apply crop rotation and 16% direct sowing, which are the most frequent good agricultural practices. Organic production is not automatically considered a good agricultural practice as it involves trade-offs (e.g. mechanical processes that harm soil) that may not lead to a net-positive impact on the environment. Other good agricultural practices, *inter alia*, include the use of biotechnology which enhances productivity and lowers the use of resources, while precision agriculture provides for a more efficient use of equipment and plots, lowering environmental impact. In terms of farming practices, the adjustment of animal load according to the intrinsic capacity of available fields will enhance productivity and can bring the greatest benefits for climate change mitigation.
United Kingdom: Reform of agricultural policy Agriculture is a devolved policy area under the devolution settlements of Scotland, Wales and Northern Ireland. This means that each government has the ability to design and implement agricultural policies for their own territories. Significant reforms of agricultural policy and spending are being undertaken, which will help align the sector with national objectives for improving the natural environment and meeting the national target of net zero greenhouse gas emissions by 2050. The reformed approach will aim to encourage farmers and land managers to provide environmental goods and services such as habitat restoration, improved water quality, natural flood management, and woodland creation.

2.4. Table 2 provides a compilation of considerations related to the design of agricultural subsidies that were raised as part of Members' discussions. Consolidating the elements included in Table 2, Members take into account the following considerations when designing agricultural subsidies:

- Accounting for multiple objectives such as generating income and jobs, raising living standards, improving food security and ensuring environmental sustainability;
- consider in an integrated manner the impact on production, trade and environment and steer agricultural production towards high-efficiency and sustainability;
- subsidies should not be granted in areas with a greater degree of environmental damage such as heavy metal pollution to avoid "environmental depressions" in agricultural production;
- subsidies should be directed towards good agricultural practices as they can limit negative effects on the environment while helping developing countries increase productivity;
- a comprehensive consideration of different environmental effects, including carbon emissions, biodiversity, healthy soils and responsible water management;
- the environmental effects of agricultural subsidies with due consideration to each country's specific situation;
- consideration of subsidies that can be beneficial to the environment, including support for the provision of public goods or compensation of income loss due to the use of environmentally friendly methods of production;
- evaluate the environmental impacts of agricultural policy using quantitative models;
- the impact on farmers in developing countries.

Table 2. Members' considerations in the design of agricultural subsidies

Multifaceted intersection between agricultural subsidies, food security, sustainability and development – when designing agricultural policies, countries are faced with the challenge of defining a set of goals that often involve generating income and jobs, raising living standards, improving food and nutrition security and ensuring environmental sustainability.
Agriculture plays a multifunctional role in maintaining biodiversity and protecting the environment, while also serving as key contributor to food security and other non-trade aspects. Agricultural subsidies can support and enhance agriculture while promoting environmental sustainability.
Environmental factors have a big impact on agricultural production, and in the context of tightening resources and increasingly fragile ecological environment, agricultural subsidy policies should

balance the relationship between growth promotion and environmental protection so as to improve the resilience and sustainability of agricultural production.
When formulating agricultural subsidy policies, the impact of production, trade and environment should be considered in an integrated manner. Support for governance of agricultural environment, water conservation and ecological compensation should be bolstered, the overall protection and support for agricultural resources should be strengthened.
Subsidies should not be granted in areas with a greater degree of environmental damage such as heavy metal pollution to avoid "environmental depressions" in agricultural production, and steer the agricultural production towards the direction of high-efficiency and sustainability.
With good agricultural practices, agricultural producers can be competitive and at the same time protect the environment. For example, subsidies directed to the use of fertilizers or plant protection products can greatly limit their negative effect on the environment if good agricultural practices are applied. This is an important point for many developing countries that face increasing challenges to control pests and diseases or to increase their productivity in the face of challenges such as climate change.
Need to consider diverse impacts of agricultural subsidies, and need to consider environmental effects in a holistic way, beyond carbon emissions.
Members should themselves identify and evaluate environmentally harmful subsidies as well as reorient them to environmentally positive ones given that simple elimination or reduction of agricultural subsidies can result in decreasing agricultural productions, increasing prices, or reducing farmers' income.
In the legislative processes, the Government systematically evaluates the environmental impacts of agricultural policy measures including by using quantitative models. Agricultural subsidies can be beneficial to the environment. The Government grants subsidies that ensure the provision of various public goods, such as the preservation of biodiversity, the protection of water and air quality or the reduction of greenhouse gas emissions. Furthermore, subsidies can also help in compensating farmers for income loss that is due to the use of environmental-friendly methods of production.
Certain agricultural subsidies or support programs are designed to achieve multiple objectives, some of which may be directly or indirectly related to the protection of the environment.
Environmental effects of agricultural subsidies vary depending on natural conditions or environmental requirements of subsidy disbursement. It is therefore indispensable to examine and evaluate based on a non-uniform approach with due consideration to each country's specific situations. It is also not appropriate to analyse environmental effects based on a single indicator or benchmark given their high complexity. The content of data to evaluate environmental effects vary depending on the purpose of evaluation and the situation of those countries and regions.
Comprehensive consideration of all environmental effects is important, including carbon emissions, biodiversity, healthy soils and responsible water management. (CHE)
Important to consider the potential environmental effects in the long term. Furthermore, the effects of agricultural support measures may vary based on the differences in agricultural structures.
High subsidies in rich countries reduce the ability of farmers on developing countries to compete and share on the benefits of international trade.

3 SUBSIDIES RELATED TO THE TRANSITION TO A LOW-CARBON ECONOMY

3.1. Subsidies related to a low-carbon transition were discussed in the meeting on 10 May. According to the presentation by IISD on the Energy Policy Tracker, at least USD 474.43 billion of support went towards clean energy, compared to USD 512 billion for support towards fossil fuel energy during 2020-21. IISD underscored the need to prioritize clean energy investments and reforms in recovery plans, and to balance immediate crisis responses with longer term sustainability objectives.

3.2. In the Working Group, Members shared their experiences on subsidy design and discussed the following questions:

- How do you balance environmental and trade considerations when designing subsidies related to the low-carbon transition?
- How do you consider possible trade impacts in the design of subsidies related to the low-carbon transition?
- How can the environmental effects and trade impacts of such subsidies be identified?
- What are information gaps to better understand these impacts, and how could transparency and data availability be enhanced?

3.3. Table 3 provides a compilation of experiences shared by Members in the form of presentations or as part of their interventions.

Table 3. Experiences with the design of subsidies related to the transition to a low-carbon economy

Brazil: Subsidies in support of green transition in agriculture Brazil provides non-distortive agriculture subsidies on a modest level to support the green transition in agriculture. Its low-carbon agriculture program (ABC plan) has succeeded in mitigating more than 170 million tons of carbon emissions by 2018 and is a core part of the strategy encapsulated in Brazil's ambitious Nationally Determined Objective.
Canada: Federal Budget 2023: Affordable Energy, Good Jobs, and a Growing Clean Economy Canada's Plan for Affordable Energy, Good Jobs, and a Growing Clean Economy proposes investments in clean growth of almost USD 21 billion over the next five years and focuses on securing global investment in the clean economy, with significant funding allocated for clean electricity, clean economy growth, resilient infrastructure, and technological innovation. To accelerate private investment, three tiers of federal financial incentives are employed: targeted programming to support clean energy and decarbonization projects; strategic financing to attract private capital and accelerate deployment of key technologies; and investment tax credits for investments in clean energy, clean hydrogen, clean technology manufacturing and deployment, and carbon capture use and storage. These financial incentives are underpinned by carbon pollution pricing and regulatory frameworks providing a price incentive to reduce emissions and innovate.
China: Green Subsidy Policy of China - Competitive allocation of fiscal funds as an example China's green subsidy policy aims to contribute to its goals of carbon peaking and carbon neutrality, playing an important role for the green transformation of its economy. Examples of policies include special funds for the development of clean energy and air pollution and control, a subsidy fund for energy conservation and emission reduction, preferential tax treatments for new energy vehicles and enterprises with comprehensive utilization of resources, and conservation and restoration of nature. The practice of competitive allocation of fiscal funds reformed the previous model of average allocation, providing incentives for participants and improving the effectiveness of the use of fiscal funds. Procedures of the competitive allocation include the issuing of funding opportunities by the Ministry of Finance, submission of proposals by candidate cities, expert review and competitive mechanism, public notification of assessment results, funds allocation and performance evaluation.
European Union: EU policy support for the transition to a low-carbon economy The EU Green Deal Industrial Plan aims to scale up manufacturing capacity for net-zero technologies, and includes the four pillars of: predictable regulations; increased investment for clean tech production; skills enhancement; and fair and open trade. The EU's state aid framework includes a balancing principle, where positive contributions to achieving the policy objective are to outweigh any negative effects on trade. The guidelines on state aid for climate, environmental protection and energy provide for safeguards (ensure effectiveness; not unduly distort competition), coherence with environmental legislation and WTO compatibility. The WTO has a role in supporting climate neutrality through its disciplines on subsidies, promoting green transition in a manner that minimized trade distortions, and as a forum for deliberations on trade aspects of the green transition.

Japan – Green transition fund Japan established the Green Transition Fund, which will provide support from R&D to deployment over ten years towards carbon neutrality in 2050. Japan is also preparing a framework to support green transformation by utilizing financial resources to be generated by growth-oriented carbon pricing, which will be introduced in a step-by-step manner. Intend to utilize subsidies as an incentive, in combination with regulatory measures, to promote private investments in those sectors that contribute to the global green transformation, such as targeted support for high-risk R&D that is expected to create spillover effects. Such subsidies aim for green growth to create new dynamics of industries and trade rather than squeezing domestic markets.

3.4. Table 4 provides a compilation of considerations related to the design of subsidies related to the transition to a low-carbon economy that were raised as part of Members' discussions. As part of the experience sharing, Members highlighted a number of common elements, including compliance with WTO rules. Consolidating the elements included in Table 4, Members take into account the following considerations when designing subsidies related to a low-carbon transition:

- minimize trade-distorting impacts when designing subsidies;
- provide subsidies on a non-discriminatory basis;
- avoid local content requirements;
- consider the balance between the positive effects for the transition to a low-carbon economy and the distorting effects on trade;
- consideration of nature of linkage with policy objective such as reducing green greenhouse gas emissions;
- avoid unilateral measures that may disrupt global trade;
- take into account how market distortions might disproportionately affect developing and least developed countries as well as different development levels of countries.

Table 4. Members' considerations in the design of subsidies related to the transition to a low-carbon economy

Importance of promoting innovation and investment without creating trade distortions or a subsidy race. It is essential to adhere to WTO rules while developing support measures to balance climate objectives and minimize trade impacts.
Market-pull incentives like carbon pricing, feed-in-tariffs, and investment tax credits are generally less distortive than subsidies that directly encourage manufacturing capacity.
Avoiding local content requirements which can distort trade.
Balancing test: achieve the policy objective of a net-zero transition, while minimising trade distortions. This balancing is between the positive effects of the subsidy – it must facilitate the development of an economic activity with clear link to the green objectives - against the negative effects – the subsidy cannot unduly affect trading conditions to an extent contrary to the common interest.
WTO compatibility is a built-in feature in subsidy design.
Essential to ensure WTO-consistency and minimizing negative effects on trade especially in the phase of designing specific subsidies.
Importance of taking trade effects and WTO conformity into account when designing subsidies.
Need to align with the rules set by WTO agreements. Importance of avoiding unilateral measures that risk and disrupt global trade.
The current balance as set out in the SCM Agreement allows the granting of subsidies, even of specific ones, insofar they do not cause adverse effects to the interest of other Members or result, due to their design, in particular trade-distortions.
Minimizing the trade-distorting impact when designing green subsidies is in line with both trade and energy policy interests. Trade distortions increase the price of investments necessary for the low-carbon transition.
The current trade rules support taking into account the possible trade-impacts of subsidies related to the low-carbon transition.

Green subsidies are traditionally provided on a non-discriminatory basis to minimize trade distorting effects.
Important to acknowledge that some green subsidies, even with the best intentions, can negatively impact trade.
In the design of subsidies, it is essential that we not only look towards meeting our shared net zero and environmental commitments, but we do so in a way that minimizes potential trade effects and complies with existing WTO obligations.
It can be difficult to anticipate the trade effects of a subsidy and causation, in the abstract.
OECD work on possible elements of subsidy design suggests that that "good" government support needs to be: (i) proportional with the scale of the problem it is meant to solve (e.g. market failures); (ii) time-limited, e.g. by way of a sunset clause; (iii) targeted toward those that most need it in order to minimize windfall effects; (iv) non-discriminatory; and (v) transparent, through the publication of relevant information by the government concerned.
In the context of the green transition, subsidy design may incorporate consideration of whether or not the program directly links to the reduction of greenhouse gas emissions.
Find balanced and meaningful solutions to ensure that our collective approach to subsidies promotes environmental objectives at the WTO while, at the same time, upholding and safeguarding an open and non-discriminatory international trading system.
Certain subsidies might create market distortions disproportionately affecting developing and least developed countries, and, in the name of reducing carbon emissions in one jurisdiction, hampering the capacity of other countries to pursue similar goals. As fiscal capacity becomes the lever for competitiveness, developing countries will struggle to keep pace on this race to the bottom. A redistribution of global trade and production that further marginalizes developing countries is bound to also constrain their ability for climate action and detract from global efforts for decarbonization.
Must acknowledge the centrality of development and its different level in all countries, while providing all enablers towards sustainably achieving country specific plans and actions.

4 TRANSPARENCY

4.1. Table 5 provides a compilation of transparency considerations related to agricultural subsidies that were raised in the Working Group.

Table 5. Transparency considerations related to agricultural subsidies

At WTO
Potential for a technical exercise focused on identifying the types of trade and production distorting agricultural subsidies that are also particularly harmful to the environment.
There is a need to discuss impact indicators related to agricultural subsidies.
Other international efforts
The OECD's PINE database will be utilized to measure environmentally positive subsidies under the Kunming-Montreal Global Biodiversity Framework.

4.2. Table 6 provides a compilation of transparency issues related to subsidies related to the transition to a low-carbon economy that were raised in the Working Group.

Table 6. Transparency considerations related to subsidies related to the transition to a low-carbon economy

At WTO
There is low compliance with the notification requirements of the WTO Subsidies Agreement.
Proposal have been made to improve transparency at the WTO Subsidies Committee.
Notification obligations provided under the SCM Agreement are the basic foundation of subsidies disciplines. It is necessary to fulfil existing notification obligations on industrial subsidies, including low-carbon transition subsidies.

There is a need to comply with the notification requirements in the Agreement on Subsidies and Countervailing Measures.
Compliance with WTO subsidy notifications is at chronic low levels, with recent figures showing that more than half the Membership have not submitted their 2021 notifications. Members were urged to redouble efforts to submit their notifications and engage constructively in ongoing work to improve the shared evidence base.
There is a need to improve the timeliness and quality of information provided, and better support those Members with genuine capacity concerns to engage in this work.
Other international efforts
The OECD's expanded MAGIC database, which includes subsidy data collected at the individual firm level, is an essential step forward in increasing transparency, and could be used to assess the trade and environmental impacts of subsidies.
The Energy Policy Tracker (energypolicytracker.org), an initiative of 29 expert organizations, tracks public financial flows from fossil fuels to clean energy, covering policies affecting energy production and consumption for 38 economies.
National efforts
Importance of transparency of energy subsidies – both the fossil fuel subsidies and the clean energy subsidies - going beyond the WTO notification requirements including broad policies and measures.
Regular reports on energy subsidies are being published.
To further improve and harmonise data collection, rules provide for the structure, format, technical details and process for national energy and climate progress reports. This includes information on progress towards the national objectives to phase out energy subsidies, in particular for fossil fuels. The rules also set out a reporting template for this purpose.
The Government ensures a high level of transparency in formulating and implementing subsidy policies, including their impacts on trade and the environment through the national legislature, public comments on the details of specific policies and public offering of specific projects.
Tracking government financial flows is not a sufficient analysis of the subsidies being provided by a country.