

PROJECT

EU

Environmentally-Harmful Subsidies

Long lived environmentally-harmful subsidies are numerous in Europe - coal is an oft-stated example, as are some aspects of the common agricultural policy (CAP) and common fisheries policy (CFP). Ecologic Institute is one of three institutions funded by the European Commission and DG Environment that will provide an ad-hoc group of the European Council with an overview of all environmentally-harmful subsidies, in addition to an investigation of specific cases studies on attempts to remove subsidies in Member States.

Reforming environmentally-harmful subsidies (EHS) is an important area of work in the context of environmental fiscal reform. At the EU level, the commitment to reduce EHS has been reaffirmed several times. The latest high-level statement in this context was given by the Spring European Council of 2006, which endorsed the "further exploration of ... a reform of subsidies that have considerable negative effects on the environment and are incompatible with sustainable development, with a view to gradually eliminating them." Subsequently, the Commission established a High Level Group on Competitiveness, Energy and the Environment in February 2006.

The **aim** of this project is to provide information and ideas to this ad-hoc group.

The **objective** of this report has been to investigate:

- What harmful subsidies are;
- Where they exist;
- What effort has been made to reform the harmful subsidies
- Whether these were successful, and what lessons can be drawn as regards obstacles and drivers for reforms, including positive practical approaches; and
- What the implications are for Community State Aid policy.

It does this by reviewing the current literature, developing a long list of case studies based on specific criteria, and selecting a subset of case studies to conduct in-depth analysis to identify lessons learnt. The case studies examine the original rationale behind the subsidy, the process leading up to the reform, the role of stakeholders in the process, the scale and duration of the subsidy, the negative impacts on the environment, and their potential implication for Community State Aid rules. Most case studies relate to energy and transport sectors, but there are also some examples from the water sector.

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