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Impeding subsidies

- A STUDY ON MISDIRECTED SUBSIDIES IN THE BALTIC SEA REGION

WWF Baltic Ecoregion Programme 2009

Investing in our Future

The problems facing the Baltic Sea have been discussed for decades now. Gloom and doom scenarios demonstrating the seriousness of the situation and how the Baltic Sea is slowly dying have been frequently presented. Recently, however, we have seen some encouraging signs of hope. Cod stocks are showing signs of recovery. The yearly figures on inputs of nutrients to the Baltic Sea are slowly decreasing and the trend is now pointing downwards. Governments and decision-makers seem to finally be willing to take responsibility for the future of the sea. We still have a long way to go, but the future might be looking a bit brighter for the Baltic Sea. We must not miss this opportunity to set things right.

Countries around the Baltic Sea have several times agreed to take measures to address the environmental problems facing the sea. One of the latest attempts is the Helcom Baltic Sea Action Plan (BSAP)¹ that was agreed in Krakow in November 2007. With the BSAP, ministers from all Baltic Sea countries agreed to “restore the good ecological status of the Baltic marine environment by 2021”.

The plan includes actions to combat eutrophication, curb inputs of hazardous substances, ensure maritime safety and response capacity to accidents at sea and halt habitat destruction and declines in biodiversity. An even more recent initiative is the EU Strategy for the Baltic Sea Region (EUSBSR) that was presented by the European Commission on 10 June 2009 and is planned to be agreed by the European Council in October. The EUSBSR covers many of the same topics as the BSAP but adds overfishing as one of the main problems and also includes a closer integration with European legislation. It also takes an integrated approach to sustainable development and the conservation of the ecosystem.

In all these attempts to deal with the problems, a recurring theme is apparent – how to deal with the costs of remedy. Many hours and a lot of money have been spent calculating how big these costs might be; what are the most cost-efficient measures given limited resources; and how these measures could be financed.

A recent study² by the Swedish Envi-



Decision makers must re-direct subsidies to ensure the sustainability of the Baltic Sea and its resources for generations to come.

ronment Protection Agency in cooperation with researchers from all around the Baltic Sea looked at the latest and most advanced research on the costs of action in the Baltic Sea. The minimum cost to reach the eutrophication and fisheries targets in the BSAP is calculated to be approximately 2.6 billion euros per year. For fisheries, the measures needed to restore fish stocks are actually profitable for the society as a whole, i.e. there is a net gain in bringing down capacity and adjusting quotas to what the stocks can sustain over time.

Whatever the costs are, they need to be covered. This study³ examines what funding is available in the region today via public support in the form of subsidies. Specifically this analysis focuses on subsidies to the agriculture and

fisheries sectors and the percentage of these subsidies that can either be classified as environmentally harmful; or provided without any or enough environmental regulations; or distributed to regular business activities without supporting public goods.

A simple definition of a public good is “a commodity, service or institution which provides net benefits to communities as a whole but is unlikely to be fully provided by the market”⁴. In other words, they are goods that all society benefits from, things like clean water, healthy ecosystems, thriving rural communities and beautiful landscapes; things that have a cost attached, but are not bought or sold on the market.

Impeding Subsidies

Subsidies to the agricultural and fisheries sectors have always represented a large portion of the EU budget, especially within the Common Agricultural Policy (CAP). Even if the proportion of the EU budget spent on agriculture has declined since the 1980s, it still represents an impressive 44.5 percent of the total budget for the current period, or a total of over 55 billion euros per year⁵

In the Baltic Sea region alone, a massive 14 billion euros per year are distributed to the agricultural sector, thereby dwarfing European subsidies to the fisheries sector through the Common Fisheries Policy (CFP), which represent 0.2 billion euros in the region. A full 84 percent of these funds, or almost 12 billion euros, can be categorized as Impeding Subsidies.

1) http://www.helcom.fi/BSAP/en_GB/intro/ (8.6.2009)

2) Swedish Environmental Protection Agency. Vad kan havet get oss? Östersjöns och Västerhavets ekosystemtjänster. Februari 2009.

3) The full study is available on request.

4) Defra. Food Security and the UK: An Evidence and Analysis Paper. Food Chain Analysis Group, Defra, December 2006

5) http://ec.europa.eu/budget/library/publications/fin_manag_account/rep_budg_fin_manag_2007_en.pdf

Impeding subsidies

The term Impeding Subsidies in this report cover three categories of subsidies:

- 1. Environmentally harmful subsidies** i.e. “all kinds of financial supports and regulations that are put in place to enhance the competitiveness of certain products, processes or regions, and that, together with the prevailing taxation regime, (unintentionally) discriminate against sound environmental practices⁶⁾”;
- 2. Subsidies to potentially environmentally harmful activities** that are provided without any or enough environmental regulations;
- 3. Subsidies that are distributed to regular business activities** without supporting any public good; i.e. funding that alternatively could be used to provide a public good.

The level of funding delivered through the CAP and the CFP (via the European Fisheries Fund, EFF) reflects the outcome of political negotiations rather than an objective assessment of the needs of these sectors, the appropriate use of public funding in response to these needs, or a consid-



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eration of the amount of funding required. Noticeably absent, is an assessment of the socio-economic benefits (or worse: damage) of these subsidies.

European subsidies to agriculture and fisheries not only influence the sustainability of land and marine management practices, they also have a determining influence on the health of affected water bodies, including the Baltic Sea. To date, however, not

enough attention has been given to the relationship between the distribution and intensity of public funding and the environmental impact of the resulting activities. Also lacking is an assessment of how subsidy schemes contribute to agreed targets and objectives on sustainability, environmental health and biodiversity. A better understanding of these relationships could facilitate improved decision-making and provide a sounder basis for policy development.

Impeding Subsidies in the Baltic Sea region

This report makes an analysis of available EU funding to agriculture and fisheries in the region. It defines which subsidies can be classified as Impeding Subsidies according to the definition above. In summary it calculates that on average, 84 percent of EU funding to agriculture and fisheries in the Baltic Sea region can be classified as Impeding Subsidies.

Financial incentives are powerful instruments to facilitate the implementation of targets and visions and have the potential to provide policy-makers with a forceful tool to shape the future. Unfortunately, subsidies in the Baltic Sea region are still largely making things worse instead of better for the Baltic Sea environment. Tax-payers' money that could be used to produce public goods are instead contributing to the degradation of the Baltic Sea and its environment.

EU subsidies in the Baltic Sea region, 2007

	Total	Impeding Subsidies	Impeding Subsidies' share of total
CAP	13995	11829	85%
CFP (via EFF)	182	141	77%
Total	14177	11970	84%

(National subsidies are not covered in this table)

Country	Tax payers in million	Payment to EU budget 2007	Impeding Subsidies to agriculture	Impeding subsidies to fisheries*	Average amount of Impeding Subsidies	Payment per tax-payer
Denmark	2.9	2,219	1,113	16	38%	€ 293
Estonia	0.7	177	100	19	38%	€ 101
Finland	2.5	1,629	684	12	38%	€ 243
Germany	38.9	21,710	6,106	17	38%	€ 211
Latvia	1.1	199	137	18	38%	€ 67
Lithuania	1.5	271	360	2	38%	€ 67
Poland	15.8	2,809	2,468	88	38%	€ 67
Sweden	4.6	2,915	861	36	38%	€ 239
Total	68.0	31,929	11,829	209	38%	€ 177

Amounts in million euros

*including national subsidies

The total payment to the EU budget from each Baltic Sea country is divided by the amount of taxpayers in each respective country. As bad practices are harmful to the Baltic Sea regardless of which country they occur in, and the region is a net contributor to the EU budget, the average amount of EU contributions being used for Impeding Subsidies is calculated by dividing the total sum of Impeding Subsidies with the total contribution from the region (38 percent). The contribution to Impeding Subsidies from an average taxpayer in each country is then calculated by dividing the total payment from the region with the number of tax payers and then multiplying it with the 38 percent.

6) OECD. Improving the Environment through Reducing Subsidies, in three volumes. OECD 1998.



WWF believes agricultural subsidies should support environmentally sustainable rural development - which can also help boost jobs and the rural economy in ways that also deliver environmental benefits.

Choking the Baltic Sea with taxpayers money

By looking at the region's contribution to the total EU budget, it is possible to calculate how much the average taxpayer contributes to Impeding Subsidies in the Baltic Sea region every year (see table page three). The amount differs between the different countries, from 293 euros per person and year in Denmark to 67 euros in Latvia, Lithuania and Poland.

Don't blame the farmers or the fishermen!

The problem of impeding subsidies is a political one that can only be solved on the political level by a fundamental re-orientation of the subsidies. It would therefore be unfair to blame the individual farmer or fisherman for the situation that has arisen. Of course, no farmer or fisherman wants to cause eutrophication through the release of nutrients or destroy his own livelihood by overfishing. They operate in a system that forces them to compete and increase their revenues and yields,

and which does not set stringent and equal demands on environmental performance. Any single farmer or fisherman (or even country), who sets higher standards than others, may immediately become less competitive. It is therefore very difficult to operate independently from the system that exists today.

Reforming agricultural policy

A key component in solving the problem of eutrophication lies on the land and in the promotion of more sustainable farming and land management practices. Successive reforms of EU's Common Agricultural Policy (CAP) have started the process of putting agriculture on a more sustainable footing but much remains to be done. Putting an end to eutrophication of the Baltic Sea demands further progressive reform of the CAP. In the context of the upcoming EU budget review, time is ripe to consider what changes are needed in agricultural policy over the coming decade or more.

In this context, governments and other decision makers around the Baltic Sea should:

- make full use of existing CAP measures to combat eutrophication of the Baltic Sea, achieve better water management, reverse the decline in biodiversity and adapt to, and mitigate against, climate change;
- engage in a full and open debate about the future of the EU budget and the need for substantive reform of the CAP to create a new fund focused on sustainable land management and rural development;
- work in partnership with environmental NGOs, farmers' representatives and others to develop such a new fund, a Common Environment and Rural Policy, for implementation in 2019.

The time for change is now. Europe's decision makers have a responsibility to citizens and taxpayers to address the many environmental problems of the past and forge a new and sustainable future for Europe's rural areas⁷.

7) WWF's full vision statement for reform of the CAP can be found at www.panda.org/baltic



Subsidies can be used to promote sustainable fishing practices in local communities. One example is helping local fishermen develop conditions required for sustainable fisheries, including the use of selective gear.

Reforming fisheries policy

The Common Fisheries Policy (CFP) can be characterised as one of the EU's major public policy failures. Fish stocks around the world are in trouble but the EU faces real disaster. More than 80% of the commercial fish stocks in Europe are overfished compared to the estimated global average of 25%. Poor fisheries management – with quotas and fishing effort set too high, disregard of the scientific advice, indiscriminate gear, insufficient control and enforcement, along with too many boats fishing too few fish – continue to put the Baltic Sea and its fishing communities at risk.

Funds provided by the European Union have contributed to this problem by increasing its already excessive fishing capacity instead of adjusting the fleet to an appropriate size. This is not only a problem for the sustainability of fish stocks; it is an equally serious problem for the fishermen who find the

profitability of their trade going down every year.

To turn the tide in the Baltic Sea fisheries, the new Common Fisheries Policy should:

- promote, develop and implement rights-based management tools – systems that offer fishermen user rights to help bring capacity in line with fishing opportunities.
- guarantee that EU countries that fail to bring down their fleet capacity would have their fishing opportunities reduced.
- eliminate harmful subsidies and re-direct tax payers' resources to improving fisheries management, research and controls.

The coming reform of the EU Common Fisheries Policy offers us a unique opportunity to fix our past mistakes. Now is the time to make the changes we need, to restore our fisheries before it is too late⁸.

Public money for public goods

The Baltic Sea and all of us who live around it have a unique opportunity before us to secure the sustainable development of the Baltic Sea and its resources. We still have a lot of work to do and we will need to cooperate on all levels, in all sectors and in all countries. However, when it comes to using public funds in a responsible way, we need our governments to act on a European level. We need to reform European policy on public spending in the fisheries and agricultural sectors in order to ensure that public money is used to produce public goods. In times of economic crisis it is even more important that we ensure that the investments we make for the future will enhance, rather than diminish, our potential for sustainable growth. We urge decision makers to re-direct these subsidies, these investments, to ensure the sustainability of the Baltic Sea and its resources for generations to come.

8) WWF's full vision statement for reform of the CFP can be found at www.panda.org/baltic



WWF is one of the world's largest and most experienced independent conservation organisations, with almost 5 million members and supporters and a global network active in some 100 countries.

WWF's mission is to stop the degradation of the planet's natural environment to build a future in which humans live in harmony with nature, by:

- conserving the world's biological diversity
- ensuring that the use of renewable natural resources is sustainable
- promoting the reduction of pollution and wasteful consumption.

WWF Baltic Ecoregion Programme is part of WWF, set up to save the Baltic marine environment and restore vitality and beauty to the surrounding region.

Please contact us for more information!

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