

Financing Our Survival: Building a Nature Positive Economy Through Subsidies Reform

Fact sheet

Examples of subsidies causing negative environmental effects:

Fossil Fuels
<p><u>Gasoline Prices</u></p> <ul style="list-style-type: none">• As of the end of January 2022, at least 20 countries were subsidizing gasoline, charging less than it was worth on the world market (>\$0.675 per litre, pre tax).• This encourages wasteful consumption of the fuel, which in turn leads to higher emissions of carbon and of air pollutants, and offers little incentive to find cleaner alternatives.
<p><u>Energy for water pumps</u></p> <ul style="list-style-type: none">• In a number of countries, including Iran, subsidized electricity or fuel for pumps is encouraging the pumping of groundwater aquifers at a faster rate than they are being replenished by rainfall.• This leads to over-consumption of these energy sources (and associated emissions), and unsustainable cropping practices, setting up rural communities for wrenching changes later.• This happened in Saudi Arabia, which at the end of the 2014-15 crop season imposed a ban on wheat production for three years, harming local growers livelihoods and local businesses, because of concern over the rapid depletion of groundwater resources.
<p><u>Blended motor fuels</u></p> <ul style="list-style-type: none">• European policies on biofuel blending with motor fuels (and subsidies for “renewable diesel” and “sustainable aviation biofuels”) increases the pressure on biodiversity hotspots around the world.• These policies lead to the diversion of crops to biofuels, and increased demand for new cropland, often at the expense of tropical biodiversity hotspots.• For example, Indonesia is subsidizing and mandating biodiesel made from its domestic palm oil, in part to make itself less dependent on petroleum fuels — which it still subsidizes. This entails environmental damage from palm oil production and exacerbates inequalities between small producers and large corporations.
Hard-rock mining
<p><u>Mining in areas of rich biodiversity</u></p> <ul style="list-style-type: none">• Although there is no estimate for the total environmental harm of subsidies to hard-rock mining, a survey of 3,000 newer metal mines indicated nearly 80% of extraction in 2019 occurred in five of the six most ecologically diverse biomes in the world, threatening vulnerable ecosystems and protected territories.
Forestry
<ul style="list-style-type: none">• Illegally logged timber, often the result of favoritism or corruption in the granting of lumbering concessions, reduces timber prices by up to 16%.• This reduced market value provides less incentive to keep land forested in the country of origin, as well as lost earnings for timber firms in the importing country as well.

Deforestation contributes to ecosystem destruction, climate change and biodiversity loss, but it also affects the lives and livelihoods of millions of people who depend on it for a living.

Water

California water subsidies

- [California water](#) rules prevent the Palo Verde Irrigation District from charging for the water; fees are restricted to recovery of the District's administration costs only.
- This has resulted in artificially inexpensive water in an otherwise good growing district. As a result, Fondomonte Farms, a subsidiary of a Saudi Arabian company has purchased farmland here to access the subsidized water to grow water-intensive alfalfa. These crops are then transported to feed to cattle operations in Saudi Arabia. It is one of many firms in the region using almost-free water to produce water-intensive crops for export.
- As a result of agreements made in the 1800s, water in this district is becoming increasingly scarce, with less available for the drought-stricken local area.

Water-well drilling permits

- The [Harvard University endowment](#) bought up vineyards in a water-scarce region of California seven years ago, including the rights to drill deep wells, just before drilling was heavily restricted in the area.
- As a result of this agreement, the deep wells continue to pump water even once the heavily over-drafted aquifer drops below well levels of nearby farms. Purchases have continued, despite the widespread water crisis in the area.
- The issue quickly became contentious, as using up scarce water resources had the potential to negatively impact locals.
- The endowment has run into similar issues on property rights to key natural resources with farmland holdings in Brazil.
- As a result of the controversy, Harvard Management Company, which manages the University endowment, has since developed its natural resources group to address the issue.

Beef and soy commodities

- Beef operations and soy production benefit from [significant subsidy flows](#), and are a major cause of [tropical rainforest loss](#) in Brazil.
- Although many major grocery chains committed years ago not to sell beef produced on lands converted from rainforests, they have not been successful and [continue to do so](#).
- This risks their brand and creates continued pressure for land conversions as a result.

Examples of subsidies failing to deliver social benefits:

The social benefits of subsidies are often cited as a reason for perpetuating finance flows that cause environmental damage. However, numerous studies have cast doubt on the reality of these social benefits, finding instead that subsidy flows are benefiting the wealthiest citizens and not reaching the poorer sections of society.

Fossil Fuels

Gasoline subsidies

- Although subsidies are often lauded for their social benefits, the International Monetary Fund (IMF) found that only [7% of the subsidies](#) to gasoline, kerosene and LPG reached the lowest quintile of citizens in 20 countries; and only 18% reached the lowest two quintiles.
- The majority of the benefits from these subsidies go to high-income households, further reinforcing social inequalities.
- Subsidy reform must take into account the impact on poor households and vulnerable segments of the population to ensure that they are not disproportionately affected by changing prices, for example by introducing targeted cash transfers.

Palm oil subsidies

- A [study](#) of Indonesian palm oil subsidies found that 89% went to 15 large producers via biofuel subsidies and less than 1% went to smallholder farmers. Just 11% supported human resource development, an activity important to the smaller palm oil producers.
- Smallholder farmers often lack training, funding, and supervision, meaning they are vulnerable to lower yields, impacting their income and livelihoods.
- When smallholders sued, the government claimed it needed to subsidize biodiesel to compete with regular (i.e., petroleum-derived) diesel — a need ironically driven in part by baseline subsidies that depress the domestic price of regular diesel.

Water

- A [review of subsidies](#) to more than 1,500 water and water treatment utilities by the World Bank found that over half (56%) of subsidies are captured by the wealthiest 20% of the population, whereas only 6% of the subsidies provided supported the poorest 20%. This exacerbates global inequalities and fails to support vulnerable communities.