

Session 1: Financial Incentives for Climate Change Mitigation and Adaptation

Tim Josling

Franz Fischler

Robert Thompson

Wendy Mann

Introduction

- Financial Incentives to farmers for climate change mitigation likely to become more prevalent after Copenhagen
- Appropriate time to look at coherence with farm policies
- Which instruments are likely to be the most effective?
- What might be the distribution of costs and benefits?
- Are these likely to be consistent with WTO obligations?

Policy Approaches

- Reduction of GHG emission from crop and livestock production
- Absorption through carbon storage (sequestration)
- Encouragement of alternative crops, including biomass for alternative fuels
- Use of alternative fuels in farm (and processing) operations – co-generation

Instruments available

- Performance standards
- “Best Practices”
- Taxes on emissions (carbon tax)
- Cap-and-trade
- Subsidies
 - for sequestration
 - for alternative crops
 - cross-compliance with standards
 - for research and extension

Effectiveness

- Performance standards are difficult to apply to farming: monitoring performance likely to be too expensive (though one can use proxies)
- Best Practices more feasible: feeding practices, minimum tillage, land reserves, tree planting (build on current conservation policies)
- Carbon tax: only addresses the energy use issue
- Cap-and-trade: difficult to administer for small-scale agriculture

Subsidies

- Simpler to administer: self-identification
- Effective if correctly targeted
- But may be challenged by competitors
- May fall afoul of trade rules
 - Agreement on Subsidies and Countervailing Measures (SCM)
 - Agreement on Agriculture (AoA)

Constraints on Subsidies

- SCM
- Defines subsidy
 - it must entail a financial contribution;
 - it must be made by a government or any public body within the territory of a Member; and
 - it must confer a benefit.
- Defines Specific Subsidies
- Some Specific Subsidies Prohibited
 - Contingent on exports
 - Local content conditions
- All others Actionable – including climate change subsidies that are specific

Constraints on Subsidies

- AoA
- Constrains “all of [a member’s] domestic support measures in favour of agricultural producers.”
- Distinction depending on putative degree of trade distortion
 - Green box – non or minimally trade distorting
 - Blue Box – tied to supply control
 - Amber Box – reduction required (except *de minimis*)

Subsidies in Green Box?

- No, or minimal, effect on production, trade distorting effects
- Publically funded, not from consumer, and not a price support
- For environmental payments:
 - Clearly defined environmental program
 - Limited to extra costs/loss of income from complying

Sequestration Subsidies in Green Box?

- Sequestration subsidies not related to price, not financed by consumer, and part of a defined program
- But are they related to the additional costs?
 - What does it cost to decide not to plough up a pasture?
- Costs are “opportunity costs” not easily counted
- Farmers may need incentives to join scheme

Subsidies with Cross-Compliance in Green Box?

- Subsidies with Cross-compliance conditions
 - will usually have no (positive) output effects,
 - not consumer financed
- But they do not reflect additional costs
 - Cross compliance usually comes as an additional condition to encourage those programs

Cross-Compliance Subsidies in Green Box?

- Cross-compliance subsidies may be notified as Direct Payments
 - with cross-compliance as a convenient link to provide justification for direct payment
- Compatible with green box if not linked to current output or prices – **and no production required**

Biofuels Tax-credits as Green Box subsidies

- Is ethanol an agricultural product? If so, tax credits would be included under AoA
- Are they green box compatible?
 - Presumably qualify as environmental payments
 - But no relation to additional costs of participating in environmental scheme
 - Conservation (resource retirement) payments can not produce “marketable agricultural output”
- Most likely should be notified as PS-AMS

Summary

- If agriculture is to be included in GHG emission mitigation programs, likely to involve subsidies to encourage certain practices:
- Subsidies could fall under green box if tied to extra cost of conforming with environmental program
- Cross-compliance for direct payments faces hurdle that payments should not be dependent on production
- Biofuel subsidies (or tax credits) are likely to be amber box, as there will be an incentive above additional costs, and will in any case be related to production