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T20 Policy Brief

Task Force 04

TRADE AND INVESTMENT FOR SUSTAINABLE AND INCLUSIVE GROWTH

Enhancing Sustainability Through Reforming Subsidies for Agriculture

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Abstract

The international community recognizes that addressing sustainability challenges in the agricultural sector is vital for ensuring food security and averting environmental degradation amid a burgeoning global population. This T20 policy brief underscores the critical issue of reforming government subsidies to agriculture, valued at around USD 540 billion annually, an estimated two-thirds of which are associated with environmental harm. Emphasising the urgent need for reform, the Kunming-Montreal Global Biodiversity Framework calls for a USD 500 billion reduction of environmentally harmful subsidies by 2030. Drawing on lessons from WTO fisheries subsidies negotiations, this brief explores the feasibility of addressing environmental impacts of agricultural subsidies through international cooperation. It proposes a nuanced approach focusing on specific agricultural practices or conditions detrimental to the environment, advocating for a negative list approach outlining unsustainable practices ineligible for subsidies. Such an approach, if embraced within the G20, could pave the way for cooperative actions. The G20 can also play a pivotal role in enhancing transparency and dialogue, encouraging voluntary commitments and peer-review, and guiding subsidy design towards sustainable agriculture. This policy brief thereby offers a pathway to foster collaborative efforts, ensuring a resilient, equitable, and environmentally sound future for global agriculture.

Keywords: G20, agricultural subsidies, WTO, Kunming-Montreal Global Biodiversity Framework



Diagnosis of the issue

Agriculture stands at a crossroads, a pivotal moment where the actions taken today will profoundly shape the future of our planet and its inhabitants. While the sector represents a critical source of feedstock, fuel, and livelihoods, it is failing to deliver food and nutrition security for all, while contributing both directly and indirectly to deforestation, soil pollution, biodiversity loss, and global greenhouse (GHG) gas emissions.

As governments and stakeholders work to enhance sustainability in the sector, support measures in the form of subsidies are a critical topic for attention given the clear evidence of their influence on international production and consumption patterns and their impacts on the environment. Out of the almost USD 540 billion spent annually on global support to producers, the FAO, UNDP and UNEP (2021) estimate that two-thirds can be considered price distorting and harmful to the environment. Similarly, a recent study by the University of Adelaide Institute for International Trade (IIT) argues that a significant share of agricultural support relies on policy instruments that are environmentally harmful and generate increased GHGs (Ash & Cox, 2022). Such practices not only perpetuate unsustainable farming methods but also contribute to the erosion of biodiversity, soil degradation, water pollution, or greenhouse gas emissions. The ramifications of these actions reverberate across ecosystems, threatening the very foundation upon which agriculture – and ultimately global food security – relies (Bellmann, 2019).

In the international context, the need to tackle the environmental impact of agricultural subsidies has been re-affirmed at the highest political level. Target 18 of the Kunming-Montreal Global Biodiversity Framework (2022), which calls on governments to address

subsidies harmful to biodiversity and reduce them by at least USD 500 billion per year by 2030, signals a collective need for decisive action.

At the World Trade Organization (WTO), negotiations on agricultural subsidies have focused on reducing substantially and progressively the most distorting forms of domestic support including the large entitlement of the biggest subsidisers, and encouraging a shift towards less production and trade distorting forms of support as defined in the different coloured boxes of the WTO Agreement on Agriculture (AoA). So far, comprehensive reform has proven elusive in the WTO. While these deliberations will continue, a critical gap relates to the fact that existing trade rules and ongoing negotiations essentially focus on the production and trade distorting effects of subsidies, not on their sustainability impact. This gap could be filled both under ongoing negotiations in the special session of the Committee on Agriculture and under the work stream on subsidies of the Trade and Environmental Sustainability Structured Discussions (TESSD) cosponsored by over 75 WTO Members, including many G20 members.

The fisheries subsidies negotiations in the WTO provide an important precedent in highlighting the potential for sustainability-focused negotiations at the WTO. The Agreement on Fisheries Subsidies (2022) is the first WTO agreement that focuses on environmental sustainability as its core objective. In this area, WTO Members identified a need for a set of additional disciplines on top of the Agreement on Subsidies and Countervailing Measures (ASCM) to deal specifically with the sustainability dimension of fisheries subsidies, regardless of their trade distorting effect.

While there is growing recognition of the need to reform global agricultural subsidies to align the sector with the Kunming Montreal Global Biodiversity Framework and the Sustainable Development Goals (SDGs), governments are facing two practical challenges.

A first conceptual and technical challenge relates to defining what constitutes environmentally harmful agricultural subsidies. Existing literature shows that production-related support (e.g. linked to outputs or inputs) is more likely to have environmentally harmful impacts (DeBoe, 2020; Mamun, Martin, & Tokgoz, 2021). Similarly, support going directly to producers as opposed to the sector as whole (e.g. R&D support or extension services) is more likely to result in environmental degradation. In practice, however, the actual environmental impact of a particular subsidy scheme is highly context specific and depends on a wide range of factors. In short, identifying *ex ante* the environmental effect of particular forms of support remains largely hazardous.

A second challenge relates to building political support for such reform among a critical mass of countries. So far, discussions have focused mostly on repurposing existing support measures to promote sustainable activities or practices through domestic reform. However, how to define which activities qualify for repurposing on the grounds of sustainability and where to reallocate subsidies remains widely debated. Several developing countries also fear that repurposing will only perpetuate the large amount of support granted to the agricultural sector without significantly reducing production and trade distortions. Collective approaches, by contrast, would avoid the free-rider problem and are better suited to address global environmental challenges compared to a patchwork of fragmented action.



Recommendations

In line with its 2021 commitment to fostering sustainability of agriculture (G20, 2021), the G20 can play a key role in addressing both challenges by fostering an open dialogue and cooperation on feasible and effective measures to promote sustainable agriculture and to tackle environmentally harmful subsidies. In doing so, the G20 can catalyse momentum towards a more sustainable and equitable global agricultural system. This process should complement and ideally inform ongoing deliberations in the other fora including the OECD, FAO, CBD and WTO, including potentially under the TESSD working group on subsidies or in thematic discussions in the Committee on Agriculture.

Shifting the focus to harmful practices and focusing on a negative list approach

A first contribution could consist in refining the notion of environmentally harmful agricultural subsidies. As highlighted above, an approach associating, *ex ante*, certain environmental effects with different forms of support (e.g. support based on outputs, input use or income, general services, or consumer support) is unlikely to provide the necessary granularity to single out environmentally harmful subsidies. A possible approach to overcome this challenge is to shift the focus from the type of subsidies to the specific agricultural practices, production methods or specific situations associated with clearly negative environmental impacts. In other words, instead of starting from the type of subsidies, one would rather identify harmful agricultural practices from an environmental perspective that should not be incentivised or supported via subsidies regardless of the form that such support takes.

For instance, while subsidies for the use of chemicals may not systematically lead to environmental degradation, pesticides that are prohibited under international agreements, such as those outlined in the Basel, Rotterdam and Stockholm Conventions, should



unequivocally be excluded from subsidy schemes. While subsidies for irrigation can be deemed acceptable, this could be contingent upon sustainable water management practices, particularly in regions where water tables are at risk of depletion. In short, this nuanced perspective would define *ex ante* a set of circumstances and possibly thresholds where agriculture should not receive support based on environmental sustainability considerations, regardless of subsidy categorization. This in turn could be translated into a list of situations where certain practices should not be subsidised. Such a list could then be used as a basis to design new international disciplines in the form of prohibited subsidies or enhanced transparency obligations. If this is not possible, Members could also use this list to design guidelines for the granting of support or to undertake voluntary commitments or pledges not to grant support to these practices (see below).

The approach is not completely new. WTO negotiations on fisheries subsidies have already highlighted the difficulty of establishing a list of harmful subsidies (e.g. for fuel, boat construction or equipment) that contribute to overcapacity or overfishing and therefore should be prohibited. This is because the impact of subsidies on fish resources depends on several other factors including the extent to which effective fisheries management regimes are in place. The current WTO Agreement on Fisheries Subsidies partially overcomes this difficulty by focusing on certain fishing practices or conditions where fishing and fishing related activities should not be subsidised regardless of the type of support. It provides, for example, that subsidies to illegal, unreported and unregulated (IUU) fishing shall be prohibited. Similarly, any subsidies for fishing and fishing related activities of stocks that are already overfished or that take place in the unregulated high sea shall be prohibited.

There are clearly differences between agriculture and fisheries. While the key challenge in fisheries relates to the management of common goods, the situation in

agriculture is more multidimensional even if concerns around water, climate or biodiversity can show some similarities. In spite of these differences, moving away from the traditional classification of subsidies - which was designed to reflect the trade and production effect of subsidies, not their environmental effect - and focus on the production conditions, practices or methods, which should not be incentivised through subsidies, not only provides more granularity but also makes more sense from an environmental perspective.

In practical terms, a first step in pursuing such an outcome-based approach would consist in defining a set of priority environmental concerns to be addressed (e.g. GHG emissions, biodiversity loss, water scarcity, soil degradation, or chemical contamination). The next step would consist in identifying potentially harmful agricultural practices affecting these environmental priorities. This would imply, for example, identifying a range of biodiversity impacts or GHG emissions driven by or closely associated with certain agriculture practices or production methods. The analysis could be further refined through additional layers, highlighting the specific circumstances or thresholds making such practices particularly harmful from an environmental perspective or possible trade-offs between different environmental objectives. For example, while mechanical tillage may generally have negative environmental impacts like pesticide and nutrient runoff, soil erosion, or loss of soil organic carbon, such impacts may be exacerbated under certain agro-ecological conditions or depending on the time of the year when this is done. Finally, should this approach ultimately lead to a negative list to be used as the basis for new disciplines or even voluntary commitments, a third aspect would consist in reflecting the specific concerns and conditions prevailing in developing countries in particular Least Developed Countries (LDCs) or Small Island Developing States (SIDS). This should not only recognise possible trade-offs between environmental objectives and other critical



public policy objectives such as rural development, food or livelihood security but also the need to reflect principles of international law relevant to the environment such as the principle of common but differentiated responsibilities and respective capabilities, in the light of different national circumstances. This could be addressed in different ways, including through exemptions, flexibilities or transition periods for countries at different levels of development and faced with different vulnerabilities or for different types of agriculture (e.g. low income or resource-poor producers).

Fostering Cooperation on Subsidy Reform from a Sustainability Perspective

Beyond the G20's contribution to defining environmentally harmful agricultural subsidies, the G20 could play a critical role in fostering an open discussion among its members on possible cooperative action in this area. The G20 can be decisive in several ways, ranging from enhanced dialogue and transparency, through soft law outcomes in the form of guidelines for the design of subsidies to pledges or voluntary commitments:

- **Fostering dialogue:** By fostering open channels of communication, the G20 can facilitate constructive exchanges of best practices and lessons learned, enabling countries to align their policies more closely with sustainability objectives while respecting diverse national contexts. One key aspect of subsidy reform involves redirecting financial incentives towards practices that promote sustainability and resilience. Instead of subsidising inputs that contribute to environmental degradation, such as synthetic fertilisers and pesticides, governments can incentivize the adoption of agroecological practices that enhance soil health, biodiversity, and water conservation. By investing in research and innovation, extension services, and infrastructure that support sustainable farming methods, governments can empower farmers to transition towards more environmentally friendly practices. Finally, subsidy reform presents an opportunity to address inequalities within the agricultural sector. Historically, subsidies have often

favoured large-scale industrial farming operations over smallholder farmers, exacerbating disparities in access to resources and market power. By reorienting subsidies towards small-scale producers, women farmers, and marginalised communities, governments can promote inclusive growth and rural development while fostering resilience in the face of climate change.

- **Transparency:** Enhanced transparency within member states regarding the sustainability dimension of their subsidy programs can lay the groundwork for informed cooperation. Standardised reporting requirements and comprehensive peer-review processes within the G20 following the model developed for fossil fuel subsidies could go a long way in promoting a shared understanding in this area.¹

- **Voluntary commitments and mechanisms for peer-review and accountability:** Encouraging voluntary commitments to reduce environmentally harmful subsidies and repurposing existing schemes can serve as a catalyst for change, incentivizing nations to proactively address the environmental impacts of their agricultural support schemes. Regular peer-review processes in the G20 in addressing harmful subsidies can contribute to fostering accountability and driving policy change.

- **Guidelines for subsidy design:** The G20 can play a crucial role in developing guidelines for reductions and repurposing of subsidies, providing a framework to guide member states in their efforts to transition towards more sustainable agricultural practices.

Overall, there should be tighter coordination between the G20 and other relevant processes, recognizing that several international organisations are separately involved in different research efforts to identify and tackle environmentally harmful agricultural

¹ G20 members have acquired some relevant experience in the context of fossil fuel subsidies – although there has been very slow progress so far.

subsidies. This includes ongoing work at the OECD, CBD and the FAO but also in the TESSD working group on subsidies in the WTO. One key step is that the eight G20 Members not currently participating in the TESSD should join the initiative. More broadly connecting the dots between these different initiatives could be vital for bolstering interest and ‘buy-in’ to devoting more attention to the challenge of environmentally harmful agricultural subsidies and ensuring relevance to ongoing discussions among policymakers.

Scenario of outcomes

If decision-makers were to embrace the proposed recommendations, several potential scenarios could unfold. Shifting the focus to harmful practices and adopting a negative list approach to agricultural subsidies could lead to significant changes in subsidy allocation. Learning from the WTO fisheries subsidies negotiations offers great potential to address the environmental and climate change impacts of agricultural subsidies. At the same time, implementing these recommendations may not be without challenges and trade-offs. Resistance from vested interests, such as powerful agricultural lobbies, could hinder efforts to shift away from harmful practices.

Central to addressing the challenge of agricultural subsidies is the recognition of their dual nature: while intended to support farmers and ensure food security, they often inadvertently undermine broader sustainability goals. Reforming these subsidies necessitates a comprehensive approach that balances the needs of farmers with the imperative to safeguard environmental integrity. Subsidy reform can therefore not occur in isolation but must be accompanied by broader policy changes that promote a transition towards sustainable food systems. This includes measures to strengthen land tenure rights, improve access to markets and finance for smallholder farmers, and enhance the resilience of food supply chains. Subsidy reform would also highlight - for some countries - the many other policy constraints governments impose on them such as a plethora of domestic taxes at varying levels including duties; issues with accessing distribution channels; or the power of retailers.

In this context, the G20 can play a key role in fostering transparency, dialogue, voluntary commitments, and guidelines for subsidy design, which could go a long way in advancing towards agricultural subsidy reform. Increased transparency regarding subsidy

programs could facilitate informed cooperation among member states, promoting accountability and knowledge-sharing.

Overall, the proposed approach in this T20 Policy Brief offers a pragmatic framework to address the complexity of environmental impacts associated with subsidies, fostering collaborative efforts within the G20 and beyond to ensure a resilient, equitable, and environmentally sound future for global agriculture.

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