

The IISD Program for Transparency and Accountability in Public Expenditure

What single economic instrument has the greatest negative impact on prospects for a sustainable future?

Governments in rich countries devote over US\$700 billion per year to subsidies for agriculture, water, energy and transport alone—substantially more than their total spending on defense.

In fact, the overall cost of the Millennium Development Goals, Official Development Assistance, the eradication of malaria, Agenda 21, etc., all pale in comparison to the massive funneling of public funds—in the form of subsidies—towards activities that mostly have negative impacts on trade and sustainable development.

Although subsidies temporarily benefit particular interest groups, they often remain long after they have served their purpose. As such, they are a major factor in perpetuating inequities within and especially among countries, taxing the international system of economic governance to the limit. There is no doubt, today, that subsidies in rich countries are causing extensive damage to the economies of developing nations.

Most analyses stop there, assuming that the case has been made and all that remains is to find ways to remove the subsidies. Yet, understanding the rules that govern subsidies and their removal, as well as the likely impacts of such reforms, is as important as calculating the damage done by the subsidies in the first place.

But issues relating to subsidies are extremely technical, complex and sensitive. *Negotiating Subsidy Reduction in the WTO*, a seminal IISD report, shows that a WTO-centred approach to eliminating harmful subsidies, while challeng-

ing, has a chance for success. The WTO already has a clear mandate in dealing with the underlying link between trade-distorting subsidies and sustainable development.

The Global Subsidy Initiative seeks to generate a consensus in the WTO and other trade-related forums on the need to take resolute, systematic and ongoing action to reduce or eliminate harmful subsidies. Indeed, we cannot call for a more equitable world, for sustainable development, or for poverty alleviation without addressing such subsidies. It is no longer a matter of whether, but rather of how to address the need for subsidy reform.

A significant challenge is to understand which subsidies, if removed, could make the greatest contribution to advancing sustainable development. Presently, neither the WTO nor any other single forum offers the tools needed to address the problem. Instead, it will require new forms of collaboration between the WTO and, most prominently, the OECD and the World Bank. It will also require an approach that matches progress within the WTO with coordinated action on domestic fronts.

Led by an Eminent Persons Group, this Initiative focuses on three pillars:

- Building a solid research base;
- Influencing policy at the international level; and
- Generating public awareness and debate.

With an ambitious work plan of assessment, research, institutional design and advocacy, we believe it is possible to identify and eliminate harmful subsidies and thus boost sustainable development. The time is right for a new approach to subsidy reduction that uses international action to promote domestic change.

Members of the Eminent Persons Group

Dr. Prof. Celso Lafer, University of Sao Paulo, former Minister of Foreign Affairs, Brazil

Dr. Sylvia Ostry, Distinguished Research Fellow, *Munk* Centre for International Studies, University of Toronto

Dr. Rebeca Grynspan, Director of the Sub-regional office of ECLAC in Mexico, Former Second Vice-President of Costa Rica

Dr. Ismail Serageldin, Director General, Bibliotheca Alexandrina, former Vice-President of the World Bank for Environmentally and Socially Sustainable Development

Prof. Dr. Dr. h.c. Horst Siebert, AGIP Professor at the Johns Hopkins University Centre in Bologna, President Emeritus of the Kiel Institute, Member of the EU Council of Economic Advisers

Dr. Kwesi Botchwey, Executive Chairman, Africa Development Policy Ownership Initiative, Former Minister of Finance, Ghana

Dr. Isher Judge Ahluwalia, Chair of Board of Trustees, International Food Policy Research Institute

Ambassador Nobutoshi Akae, Former Japanese Ambassador to WTO, Chairman of the ASEAN-JAPAN Centre

H.E. Minister Gerrit Zalm, Netherlands Minister of Finance

Rt. Honourable Simon Upton, Chair, Round Table on Sustainable Development at OECD, former Minister of Environment, New Zealand

H.E. Mats Hellström, Governor of Stockholm Province, Chair of the Swedish Institute for European Policy Studies, former Minister of Trade

Norman Myers, Scientist-Economist, U.K.

The Honorable Paula Stern, former Chair of the U.S. International Trade Commission

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