Policy Forum 97-08: Natural Resource Subsidies, Trade and Environment: The Cases of Forests and Fisheries

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Abstract | Discussion Questions

**"Natural Resource Subsidies, Trade and Environment:
The Cases of Forests and Fisheries"**

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> [The following paper was prepared for the Trade and Environment Policy Project (TEPP) series - a collaboration between the Nautilus Institute, National Wildlife Federation, and the Berkeley Roundtable on the International Economy. Newly edited versions of this and other TEPP papers on APEC will be published this summer in a special issue of the Journal of Environment and Development. Contact the Nautilus Institute for more information.]

Summary

Natural resources are subsidized directly by government budgetary and tax measures, indirectly by trade and other policy instruments that alter price signals, and implicitly by allowing producers to avoid internalizing the costs of externalities.

Natural resource subsidies contribute to environmental degradation through the "overcapitalization effect" (drawing more investment into production of the resource than would have been the case in an undistorted market) , the "technology effect" (making more environmentally damaging technologies more attractive), ; and the "resource inefficiency effect" (removing the incentive for efficient use of the resource) ; the "overconsumption effect" (encouraging more consumption of a resource by lowering its price) , and the "public resource deprivation effect" (depriving the state of resources needed to protect natural resources).

The case of forests and fisheries illustrate all five of these mechanisms by which natural resources subsidies cause environmental damage. In the forest sector, low stumpage fees encourage higher levels of timber harvesting and greater consumption of wood products by reducing the marginal cost of some portion of the trees in a concession. They also deprive the state of resources that could be used to protect forests. Log export restrictions, on the other hand, by depressing the domestic prices of logs for wood processing industries, both encourage overcapacity and maintain inefficient processing industries, thus increasing pressures on forests.

The primary environmental effect associated with fisheries subsidies is the overcapitalization effect. Subsidies have directly contributed to the present massive overcapacity that afflicts the fishing industry worldwide. They have been a major cause of the depletion of fish stocks, which, along with too much competition for the remaining stocks, causes the fishing industry to suffer massive financial losses every year. Subsidies for vessel modernization and fuel subsidies have a technology effect, encouraging the use of technologies that make fish harvesting much more efficient and thus increasing the pressure on fish stocks.

The issue of natural resource subsides is now on the agendas of the World Trade Organization, the Intergovernmental Panel on Forests, the Convention on Biological Diversity and the Asia-Pacific Economic Cooperation (APEC) Forum. APEC provides a forum in which the issue could be approached without the complications of trade law or the threat of trade sanctions.

Apart from a study of fisheries subsidies now planned by the APEC Fisheries Working Group, the Economic Committee could address the issue via a work program on economic instruments for sustainable natural resource management. Economic instruments use market signals rather than direct regulation to manage environmental problems, modifying relative prices through taxes, charges or other economic incentive measures, including subsidy removal. That could be politically

viable approach to moving toward the reform of natural resource subsidies.

The Nautilus Institute Invites Your Responses

Your are invited to participate in this "virtual forum" by considering the questions below, or collecting any other thoughts you have after reading the paper, and then emailing your comments to: aprenet@nautilus.org . The Nautilus Institute will review responses and post selections to this web site.

> 1. Subsidies represent a political decision by governments to protect and/or promote a certain sector of society. If governments decide to eliminate this political tool, should 'green' subsidies (e.g. breaks for clean energy) be cut as well?2. Eliminating subsidies requires governments to clash with powerful elements of the statusquo. Does APEC's non-binding, consensus based style of policy coordination offer compelling incentives for states to do what they have been unwilling to do unilaterally: to reduce subsidies to these powerful sectors?

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