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# Principle G:

## Balancing a subsidy's beneficial effects and negative impacts

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White Paper Conference – Subsidy Control

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Having advised all levels of government and funding applicants, Alex is the go-to adviser for several UK funding bodies. He is regularly approached to design funding schemes and support or review funding applications.

Alex's clients include UK government departments, Welsh Government, local authorities, Catapults and a range of private sector bodies. His advice, articles and briefing sessions are recognised as refreshingly clear and pragmatic.

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# Principle G

## How to undertake step 4



What to do

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Balancing exercise

Make a sincere effort

Quantify costs and benefits where proportionate



What you should  
have already  
done

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Identified policy objective and benefits

Identified relevant market(s)

Identified and minimised potential distortions



What not to do

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Downplay negative effects

List negative effects of counterfactual

Include wider positive benefits

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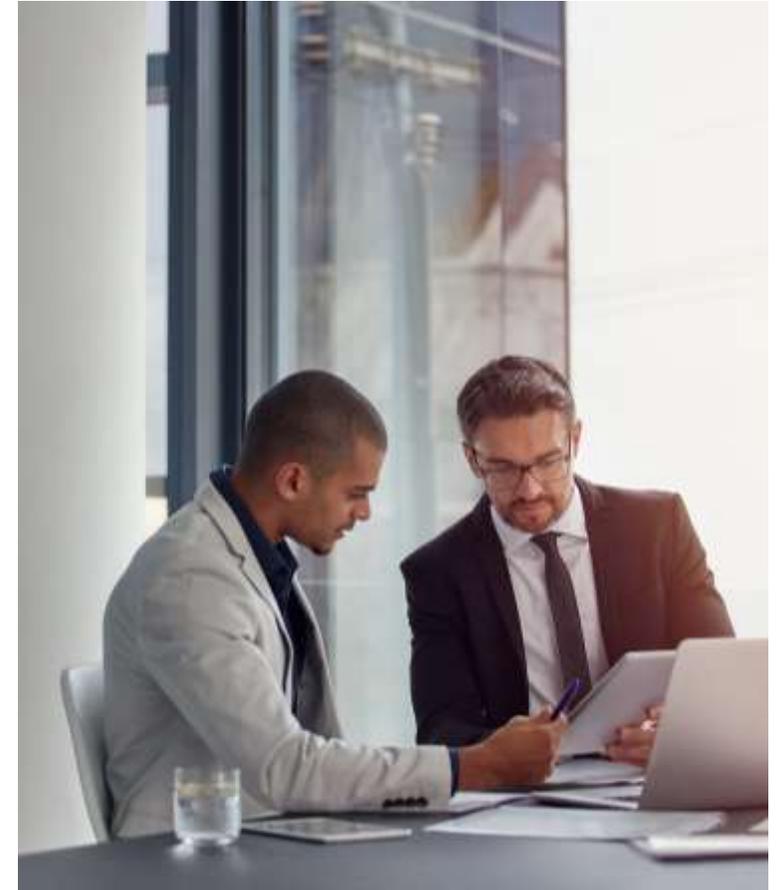
**01**

# What to do

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# Principle G

*Subsidies' beneficial effects (in terms of achieving their specific policy objective) should outweigh any negative effects, including in particular negative effects on competition and investment within the United Kingdom, and international trade and investment*



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# Step 4

## Balancing – general

- 1 - List the expected benefits to the policy objective
- 2 - List negative effects, considering size and likelihood of occurring
- 3 - Decide whether the benefits outweigh the negative effects

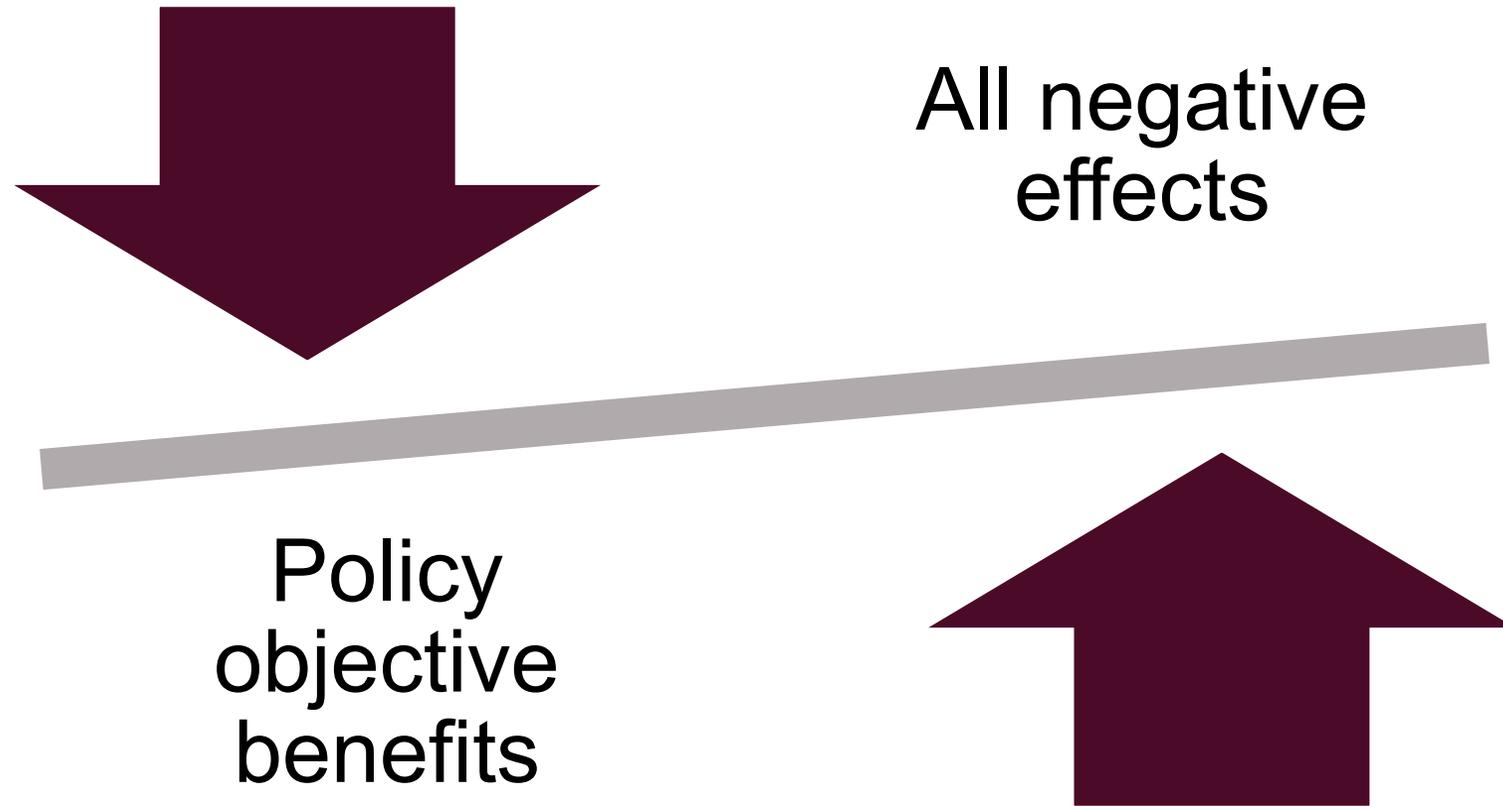
*“it may not always be possible or proportionate to quantify these harms, and therefore the balancing exercise may need to include both quantitative and qualitative elements. In such cases, an element of judgement is necessary in deciding whether the benefits outweigh negative effects”*

Where subsidies are more distortive (especially SSOI/SSOPI) and more finely balanced authorities should endeavour to quantify as many costs and benefits as reasonably possible.

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# Step 4

## Balancing Exercise



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## Step 4

# Negative Effects

- All relevant negative effects
- Consider size and likelihood of occurring
- A subsidy will always distort the market or be capable of doing so

Competition and Investment within the UK

International trade and investment

Geographical impacts

Distributional impacts

Climate change\*

Carbon emissions\*

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## Step 4

# Balancing – low value subsidies

*“Objective of the balancing exercise is to try to foresee and record the harms that might realistically arise from the subsidy, so that you are able to make **an informed qualitative judgement** about whether the benefits to the policy objective justify those harms.”*

*“The requirement to focus on the subsidy’s harms to competition, trade and investment means that when you are weighing those harms against the positive impact of the subsidy on your policy objective (which may not relate to competition, trade or investment), you are unlikely to be comparing like for like. **As a result, trying to quantify the benefits and harms to demonstrate that one outweighs the other will often be an artificial exercise and is not necessary, particularly for these smaller awards**”*



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## Step 4

# Subsidy Advice Unit extracts

*“The Assessment should explain how [x] reached its conclusion in determining that the benefits outweigh the negatives, for example by **explaining (and where possible quantifying or evidencing) the factors to which it has attributed greater or lesser weight**”*

*“could explain why it has attributed greater weight to certain factors than others (**for example by attempting to quantify the overall scale of the effects**), in order to come to a stronger overall conclusion. The Assessment could also have analysed the negative impacts **more methodologically**”*

*“the Assessment should provide a **more systematic explanation of how the positive and negative elements were weighed against each other** to reach this conclusion particularly given the assertion that unlike the quantification of the positive economic benefits, it is not possible to quantify any distortive impact on competition”*

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# Step 4

## Proportionality

### Low value / impact

*No usually necessary to quantify harms – must be considered and identified where possible*

*No need for detailed economic analysis of relevant market(s) – identify and then include in the analysis*

*Still important to explain reasoning – **why** do the positives outweigh the negatives*

### High value / impact

*More methodical approach required*

*Detailed assessment and (where possible) quantification of benefits and negative effects*

*Explain and justify weighting of different factors*

*If not possible to quantify a factor explain how it is weighed against other quantified factors*

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**02**

# What you should have already done

# What you should have already done

## 01

### Policy Objective

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Policy objective identified in step 1

## 02

### Additionality Assessment

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Impact of subsidy and how it will be conducive to achieving the policy objective (i.e. benefits) in step 2.

## 03

### Identify the market

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Relevant market(s) should be identified in step 3

## 04

### Identify and minimize negative effects

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Potential negative effects on competition and investment within the UK identified and minimised in step 3

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**03**

# What not to do

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## Step 4

# The importance of sincerity and the dangers of optimism

### Benefits

*Common to list wider benefits as per a policy paper / business case*

*Undermines assessment as strictly speaking are irrelevant considerations*

*Can be skewed by functions of relevant authority*

### Negative effects

*Omitting/downplaying negative effects will be viewed with suspicion*

*Will always be at least the potential for negative effects – otherwise no subsidy. AoC listing no negative effects will be fatally flawed*

*Omitting negative effects identified in step 3 from step 4*

# Thank you

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