POST 2020
BIODIVERSITY FRAMEWORK
EU SUPPORT

TOWARDS POST-2020 EXPERTISE ON #26

REFORMING BIODIVERSITY-HARMFUL SUBSIDIES: PRACTICAL STEPS TO UNTANGLE THE SUBSIDIES KNOT

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Phasing out or repurposing biodiversity-harmful subsidies (BHS) by 2030 is feasible and can deliver multiple benefits. This brief highlights lessons learned from successful BHS reform in selected countries and sketches out how these can feed into establishing a solid framework for BHS reform within the post-2020 Global Biodiversity Framework (GBF).

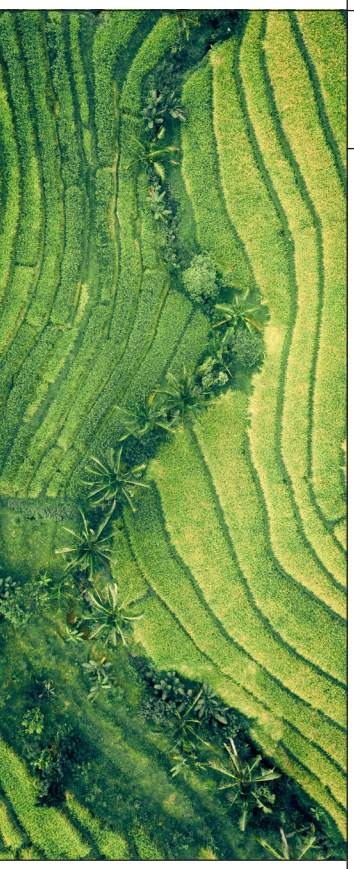
"SO, WHAT OUR TAX POLICIES ESSENTIALLY TELL US IS THAT WE DO NOT CARE ABOUT BIODIVERSITY. THERE IS POTENTIAL TO SCALE THESE [TAX POLICIES] UP, WHILE ALSO PROTECTING THE POOREST AND MOST VULNERABLE FROM THEIR EFFECTS."
Angel Gurría, OECD Secretary General

In the current context of multiple crises, reforming BHS can generate many benefits, including more efficient and coherent public financial management in a time of strong fiscal pressure, biodiversity protection at a time of unprecedented biodiversity loss, job creation at a time of mass unemployment, and improved human mental and physical well-being in the wake of a public health crisis.

The 2010 Aichi Biodiversity Targets recognized that BHS reform was essential for the conservation and sustainable use of biological diversity. Even though experts agree that it will not be possible to close the USD 711 billion biodiversity financing gap without BHS reforms [1], progress has been too slow, and governments have struggled to translate Aichi Biodiversity Target 3 [2] to the national level.

This brief highlights lessons learned from successful BHS reforms and explores possible ways of improving the commitment and framework for reform within the post-2020 GBF and beyond.

Cover photo
Landscape of meadow field with the changing environment



Curved terraces, South East Asia © Ivan Bandura

1. 2021: A YEAR OF OPPORTUNITY

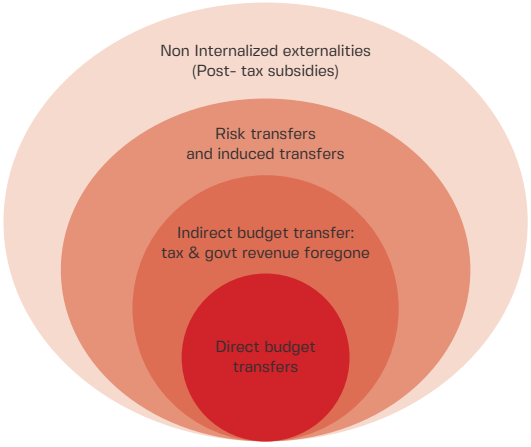
In 2010, the international community committed to eliminating, phase out, or re-form BHS in Aichi Target 3. Since then, many governments have struggled to translate this objective to the national level and embed BHS reform in their National Biodiversity Strategies and Action Plans. In 2021, the policy context has changed. The Covid-19 pandemic has made the role of human-induced biodiversity loss in increasing the risk of the emergence of new infectious zoonotic diseases all too clear (IPBES, 2020). Against a backdrop of rising public debt and scarce financial means, the formulation of the post-2020 GBF is an opportunity to commit to BHS reform as a way of mobilizing domestic resources, redirecting harmful investment and realigning spending within coherent public policy.

There are no global estimates for the total volume of BHS and no agreed system for publicizing, monitoring or reporting them. Available estimates for environmentally harmful subsidies, which typically cover at least all OECD countries and the G20, add up to well over US$ 1 trillion per year [3]. A significant proportion of this spending is harmful to biodiversity, and the costs of its impacts are unknown. In general, subsidy spending tends to be poorly targeted, with wealthier households receiving a disproportionate amount of subsidy benefits (Arze del Grenado et al., 2012). Governments cannot afford high volumes of wasteful expenditure contradictory to their nation-al strategic objectives in the context of economic, fiscal, public health, climate and biodiversity crises.

2. SUBSIDY DEFINITIONS: A WORK IN PROGRESS?

The impacts of BHS may be direct and indirect, positive and negative, and differentiated geographically and over time, making them difficult to capture and measure. By regulating the price of fossil fuels, fertilisers and pesticides, they can encourage their inefficient use, causing air, water and soil pollution. By delivering financial support for resource extraction or unsustainable practices in agri-food systems, subsidies promote land-use change and deforestation, causing biodiversity loss, ecosystem degradation and climate change. Many subsidies negatively impact livelihoods, well-being and human health, especially on poor and vulnerable populations, while wealthier households receive a disproportionate proportion of subsidy benefits (Arze del Grenado et al., 2012). There is no internationally accepted definition of BHS [4]. Definitions serve analytical and political purposes: what can and should be measured, analysed and reformed depends on the definition applied.

International organisations categorise different kinds of policy measures as subsidies (see Figure 1) and use their own methodologies to calculate subsidy volumes, producing very different estimates. In 2019, the International Energy Agency (IEA) estimated that fossil fuel consumer subsidies amounted to US$320 billion (IEA 2019), while the International Monetary Fund (IMF) post-tax estimate for 2017 amounted to US$5.2 trillion (Coady et al. 2019) [5] . No global estimates for the total volume of BHS exist. Estimates for environmentally harmful subsidies in selected countries - a significant proportion harmful to biodiversity – add up to well over US$ 1 trillion per year [3] .



IMF – post tax subsidies = external (air pollution climate, health) + consumption tax

OECD – inventory of regulatory policy measures up to and including risk transfers

IEA – price gap approach measures the difference between a (global) reference price and end-user price

"INAPPROPRIATE SUBSIDIES AND PERVERSE INCENTIVES CAN UNBALANCE THE PRODUCTION AND CONSUMPTION OF FOOD, LEADING TO AGRICULTURAL PRACTICES THAT DEGRADE THE SOIL, WATER AND ENVIRONMENT, AND DISTORT CONSUMPTION PATTERNS AND TRADE. SUCH IMBALANCES NEED TO BE CORRECTED AT THE NATIONAL LEVEL, USING POLICIES AND TOOLS APPROPRIATE TO NATIONAL CONDITIONS." Braulio Ferreira de Souza Dias, former Executive Secretary of the Convention on Biological Diversity

3. WHAT CAN BE DONE TO FACILITATE SUBSIDY REFORM?

Progress on BHS reform has been limited. Most national targets are general and refer to incentives and subsidies without specifying reform plans.

[1] See webinar Resources mobilization for biodiversity, 31 March 2021: https://cutt.ly/SbwMLmW

[2] Target 3: By 2020, at the latest, incentives, including subsidies, harmful to biodiversity are eliminated, phased out or reformed in order to minimize or avoid negative impacts, and positive incentives for the conservation and sustainable use of biodiversity are developed and applied, consistent and in harmony with the Convention and other relevant international obligations, taking into account national socio-economic conditions.

[3] This figure includes between US$ 178 billion (OECD) and US$ 320 billion (IEA) in annual consumer support for fossil fuel subsidies in 2019 in selected OECD and G20 countries, an annual average of US$ 619 billion in agricultural support between 2017-2019 in 54 countries (OECD), US$ 353 billion for water and sanitation services in 2019 (excluding China and India) (Andres u. a. 2019), and between US$9.4 billion (OECD) and US$ 35.4 billion for global fisheries sup-port in 2018 (Sumaila, U. R. u. a. 2019). Sources: (Dasgupta 2021), https://cutt.ly/BzNABMy, https://cutt.ly/HzNSqlx, https://cutt.ly/EzNSur6, https://cutt.ly/fzNSa5w.

Ubud, Indonesia
© Joel Vodell

Few countries have taken steps to identify harmful subsidies, and they still far outweigh positive incentives in areas such as fisheries or deforestation (Secretariat of the CBD 2020). This failure has been attributed to the setting of target 3 itself, weak National Biodiversity Strategies and Action Plans (NBSAPs), inadequate financial resources, lack of national finance plans for biodiversity, and imperfect indicators. NBSAPs are a critical tool for governments to translate global biodiversity targets to the national level [6] : yet only about 20% of Parties referred to actions related to BHS reform. Reported challenges include limited capacity, funding and legislative action; vested interests in maintaining BHS; and difficulties in upscaling pilot projects (CBD, 2020b).

Examples of successful international initiatives and national government actions demonstrate how such challenges can be overcome. Lessons from these experiences could be taken into account or even concretely integrated within the post-2020 GBF. G20 states committed in the 2009 Pittsburgh Communiqué "to rationalise and phase out inefficient fossil-fuel subsidies (FFS) that encourage wasteful consumption" in the medium term [7] .

In this context, the G20 initiated voluntary peer reviews. Participating countries publish a self-report in which they list inefficient FFS and describe the context of their implementation and possible reform. A panel, comprised predominantly of G20 member states, reviews the report and publishes its findings. To date, six G20 members have completed the process, and others have announced they will [8] . Peer reviews are a mechanism to generate and share information, exchange knowledge, and create transparency. They encourage capacity building on how government support can be measured and monitored (OECD 2019). In countries under review, the process can create opportunities for cross-ministerial coordination and public debate. It may be possible to integrate a similar BHS peer review process in the post-2020 GBF.

Germany publishes inventories (state aid and tax concessions) in the biannual Subsidy Report of the Federal Ministry of Finance (BMF 2019). The German Federal Agency for Nature Conservation published a report on BHS (BfN 2019), identifying them in several sectors, e.g., direct payments to farmers, reduced VAT rates for meat and dairy products, tax allowances for commuters, kerosene and diesel tax breaks, and grants for house-building [9] . Regular reporting by government agencies opens up public debate on policy coherence between environmental, economic and social objectives and on routes to reform. Regular transparent reporting can serve as a model for compliance with Article 6 of the CBD, which calls on all Parties to develop NBSAPs and National Biodiversity Finance Plans (NBFPs).
In many countries, the capacity to identify and quantify subsidies and analyse their impacts is lacking. The Biodiversity Finance Initiative BIOFIN [10] supports selected countries to review biodiversity finance policy and institutions and so better understand the regulatory environment and drivers of biodiversity loss, including fiscal policies and harmful subsidies, and to realign expenditure, reform harmful spending, and deliver financial resources more effectively and efficiently [11] . Established support for Parties within the GBF could overcome the lack of human and technical capacity.

Many BHS are, in essence, a form of social welfare and function by, e.g., regulating the price of agricultural products or fossil fuels, or by distributing cheap fertiliser or pesticides. Governments may be cautious about reform due to concerns regarding the impact on vulnerable households and a lack of robust data on the equity impacts of subsidies and their reform. However, in many cases, subsidies are poorly targeted and have unequal benefits (Arze del Grenado et al. 2012). In Indonesia, prior to reform, the wealthiest 50% of households received around 84% of gasoline subsidies, while the poorest 10% of households received less than 1% (World Bank 2011). When gasoline subsidies were phased out in 2014, the government was able to repurpose a proportion of savings for targeted social welfare, education, and healthcare, to protect poor households more efficiently and cost-effectively. Provision of a robust evidence base, analysis of equity impacts, and the introduction of targeted social assistance can be key enablers of BHS reform: it might be helpful to reflect this in the post-2020 GBF.

In Costa Rica, one of the highest deforestation rates in the world could be turned around in just a few years through subsidy repurposing and biodiversity mainstreaming. In 1996, incentives for deforestation were replaced by Payments for Environmental Services (PES) for carbon storage, biodiversity protection and hydrological services (GFPN 2019).

A raft of measures integrated biodiversity protection within long-term strategic national development planning, thus locating it outside the influence of political short-termism or changes of government. Biodiversity mainstreaming in post-2020 NBSAPs and NBFPs could aim to similarly depoliticise subsidy reform. In 2014, the European Common Fisheries Policy (CFP) was reformed. A discard ban, maximum sustainable yields and other conditions to limit overfishing were introduced. The European Maritime and Fisheries Fund (EMFF), worth EUR 6.4 billion from 2014-2020, helps fishers adopt sustainable practices and supports sustainable aquaculture (UBA 2016). The CFP exemplifies how large volumes of BHS can be repurposed and become drivers of sustainable practices.

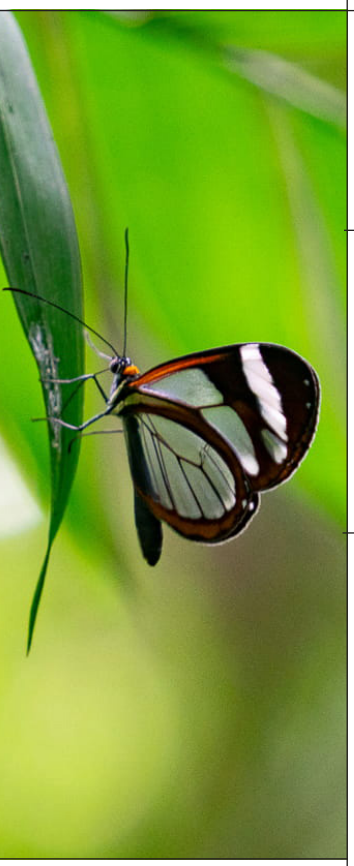
The fallout from the Covid-19 pandemic has created an opportunity for governments to recalibrate public expenditure and redirect resources causing harm to biodiversity. In 2020, governments spent US 11.1 trillion on immediate rescue efforts and US$1.9trillion on long-term recovery, about 18% of which was

[4] In this paper, we use the term "subsidies", in line with international policy dialogue and the widely accepted legal definition of subsidies under the WTO, which defines subsidies as direct or indirect transfers of funds by government, government provision of goods or services, income or price support, and other transfers of funds that confer a benefit (WTO 1994). However, Aichi Biodiversity Target 3 and the Zero Draft of the post-2020 GBF refer to both "incentives" and "subsidies" without developing a clear definition.

[5] https://cutt.ly/Mvi3iKr, https://cutt.ly/Yvi98pE.

[6] However, most national targets in NBSAPs are not well aligned with the global Aichi Biodiversity Targets and do not address all of their elements (CBD 2020b). As of March 2020, 167 countries have prepared or revised their NBSAPs. The CBD assessed in 2020 that some Aichi Targets, among target 3 did not have associated national targets or commitments in state parties developed NBSAPs (CBD 2020a)..

[7] It should be noted that the vast majority of fossil fuel subsidies can be regarded as "inefficient", as they encourage wasteful consumption and could be replaced by more efficient alternative policy measures, e.g., targeted social welfare.



Costa Rica © Anna Heuber

green (UNEP 2021). A strong focus of international policy dialogue in 2021 is a green recovery, which is fostering knowledge exchange and peer-to-peer learning between countries and should shift the focus towards long-term investments in biodiversity and climate change to deliver on this goal.

4. IMPLICATIONS FOR THE POST-2020 GLOBAL BIODIVERSITY FRAMEWORK

Drawing on the lessons above and the successes of similar multilateral environmental agreements and learning from past failures to achieve the strategic objectives of the CBD can help shape the post-2020 GBF. Target 17 of the Zero Draft GBF should be clear and as ambitious as possible, and feasible and should reflect a clear commitment to identify, publicise, redirect, repurpose, reform or eliminate 100% of subsidies harmful to biodiversity from 2021-2030.

To effectively implement target 17, it will be necessary to agree on an unambiguous, coherent and operational definition of BHS. This would deliver clarity on the meaning of ambitious targets in the post-2020 GBF and increase comparability between countries. The World Trade Organisation (WTO) definition is a good starting point for negotiation.

Reflecting on lessons from the Aichi process, it seems advisable to establish measurable and transparent indicators to gauge progress towards the 2030 target, such as a timeline for mandatory reporting, explicit integration of BHS reform in national planning documents, and interim targets. Targets should be aligned with other international commitments such as Agenda 2030 target 12.c (fossil fuel subsidies) and target 14.6 (fisheries subsidies) to ensure consistency and mainstream the CBD in international policy dialogue.

Article 4 of the UNFCCC Paris Agreement calls on parties to report regularly on their Nationally Determined Contributions (NDCs). This has focused governments on the development of concrete commitments, and it is hoped, will facilitate higher levels of ambition in the future. The introduction of a similar requirement for regular mandatory reporting on BHS within the CBD might prove equally valuable, e.g., on the basis of an agreed BHS definition, identify and quantify BHS and their impacts on biodiversity annually, include them in Parties' NBFPs, and indicate a timeline for reform by 2030.

Given the limited capacity of many countries to measure negative subsidy impacts, a targeted compliance assistance programme, analogous to the process set up to monitor progress towards fossil fuel subsidy reform under SDG Indicator 12.c.1, might be helpful. This could deliver clear methodological guidance for BHS reporting and reform, including transitional phases, compensation for vulnerable groups and subsidy repurposing.

A peer review process for subsidy reports could be established to guarantee comparability and evaluate quality. This would facilitate mutual understanding and learning, potentially raising the level of ambition in subsidy identification and reform.

At CBD level, to ensure that all countries are on track to meet the 2030 target, a stocktake of subsidy reporting and pledges received should take place in 2025. Peer-to-peer exchange between countries and bilateral support can enhance implementation, addressing knowledge gaps and capacity limitations, e.g., in the measurement of the negative impacts of investment streams.

Like-minded ambitious countries could agree to meet post-2020 GBF targets ahead of time and create frameworks to collaborate on biodiversity finance and fiscal policies, including subsidies and incentives. A grouping comparable to the Coalition of Finance Ministers for Climate Action could deliver a prominent global response to biodiversity loss.

"WE NEED TO TAKE ACTION ON HARMFUL SUBSIDIES, AS TACKLING THEM WILL HELP BEND THE CURVE OF BIODIVERSITY LOSS. WE CAN'T AFFORD TO HAVE SUBSIDIES THAT HARM NATURE IN THE 21ST CENTURY. FAILING TO FIX THE DAMAGE CAUSED BY HARMFUL SUBSIDIES IS STALLING THE PROGRESS WE ARE AIMING FOR."
Marina von Weissenberg, Ministry of Environment, Finland

[8] United States, China, Mexico, Germany, Indonesia and Italy. Argentina, Canada, France and India plan to undertake the peer review. Reports are published at https://cutt.ly/dbw1G0U

[9] Besides calling for reform or elimination of BHS, the BfN report also looks at how environmental costs can be allocated to the polluter by levying specific charge s, e.g., for pesticides use or nitrogen application.*

[10] https://cutt.ly/vzNLImF

[11] For example, in Kyrgyzstan, BIOFIN is developing a robust evidence base on BHS in a wide range of sectors, including energy, transport, mining and agriculture and priorities for reform.

Figure 1: Subsidy definitions and methodologies for measurement (authors)

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