

# Submission from the OECD Secretariat on Target 18 on Incentives of the post-2020 Global Biodiversity Framework



This document, prepared by the OECD Secretariat, elaborates a list of issues that would serve to inform and strengthen proposed Target 18 on incentives as stated in the first draft of the post-2020 Global Biodiversity Framework.

*Target 18. Redirect, repurpose, reform or eliminate incentives harmful for biodiversity, in a just and equitable way, reducing them by at least US\$ 500 billion per year, including all of the most harmful subsidies, and ensure that incentives, including public and private economic and regulatory incentives, are either positive or neutral for biodiversity.*

Proposed Target 18 is a critical target of the post-2020 Global Biodiversity Framework: it is on the policy incentives that are fundamental to transition our economies to a more sustainable, nature-positive path, in terms of both production and consumption. In its current form, Target 18 places strong emphasis on the need to eliminate or reform the incentives, including subsidies, that are harmful to biodiversity. This is an important component of the target and critical for aligning incentives. However, the current target does not place sufficient emphasis on the equally important need to simultaneously scale up the incentives that will promote biodiversity conservation and sustainable use (i.e. the positive incentives). This is in contrast to Aichi Target 3 of the 2011-2020 framework, which placed strong emphasis on both of these elements.

## **Critical Elements of Target 18**

The post-2020 Global Biodiversity Framework should address both the need to reform the harmful incentives that are exacerbating biodiversity loss *and* the need to scale up the positive incentives so as to promote biodiversity conservation and sustainable use. These two elements, together, are critical to help to ensure that incentives are aligned to protect biodiversity. Addressing only the former is necessary *but not sufficient* to halt and reverse biodiversity loss.

Moreover, the current phrasing of Target 18, which states that “incentives are either positive or neutral”, implies, in effect, that all the harmful incentives have been eliminated or reformed. Hence, if the language on incentives remains in its current form, there would be no need for the language preceding it on the harmful incentives. However, in order to make the

transformational changes needed to halt and reverse biodiversity loss, it is not sufficient for incentives to be either positive or neutral. The current language is phrased in such a way that Parties could meet this target if all incentives for biodiversity were neutral. This would mean however that there are *no* incentives in place to ensure the conservation and sustainable use of biodiversity. The true values of biodiversity would *not* be reflected in policy-making if incentives were neutral. The OECD Secretariat therefore suggests that the language in current Target 18 is reworded, at a minimum, as follows:

*and ensure that **positive** incentives **to promote the conservation and sustainable use of biodiversity**, including public and private economic and regulatory incentives, are ~~either positive or neutral for biodiversity.~~ **scaled up and made more ambitious.***

OR

*and scale up and increase the ambition of positive incentives that promote the conservation and sustainable use of biodiversity*

Additional possible improvements to Target 18 could be as follows:

*and ensure that **positive** incentives **to promote the conservation and sustainable use of biodiversity**, including public and private economic **incentives** and regulatory **instruments**, are ~~either positive or neutral for biodiversity.~~ **scaled up and made more ambitious.***

OR

*and scale up and increase the ambition of positive incentives, including public and private economic incentives and regulatory instruments, to promote the conservation and sustainable use of biodiversity*

These proposed edits are to increase the ambition of the target and ensure consistent and clear use of terminology.

### **Unpacking the terminology on incentives used in Target 18**

Generally speaking, policy instruments for biodiversity conservation and sustainable use can be classified into three categories: regulatory (command-and-control) instruments; economic (or incentive-based) instruments; and information and voluntary approaches. Examples of policy instruments under each of these categories is provided in Table 1 below.

Table 1: Policy Instruments for Biodiversity Conservation and Sustainable Use

Regulatory (command-and-control) instruments	Economic instruments	Information and other voluntary instruments
Restrictions or prohibitions on use (e.g. trade in endangered species and CITES)*	Price-based instruments <ul style="list-style-type: none"> <li>– Taxes (e.g. on groundwater extraction, pesticide and fertiliser use)</li> <li>– Charges/fees (e.g. for natural resource use, access to national parks, hunting or fishing license fees)</li> <li>– Subsidies to promote biodiversity</li> </ul>	Ecolabelling and certification (e.g. organic agriculture labelling schemes; labels for sustainably harvested fish or timber)
Access restrictions or prohibitions (e.g. protected areas; legislated buffer zones along waterways)	Reform of environmentally harmful subsidies	Green public procurement (e.g. of sustainably harvested timber)
Permits and quotas (e.g. for logging and fishing)	Payment for ecosystem services	Voluntary approaches (e.g. negotiated agreements between businesses and government for nature protection or voluntary offset schemes)
Quality, quantity and design standards (e.g. commercial fishing net mesh-size specifications)	Biodiversity offsets/biobanking	Corporate environmental accounting
Land use and marine spatial planning (e.g. ecological corridors)	Tradable permits (e.g. individual transferable quotas for fisheries)	
Planning tools and requirements (e.g. environmental impact assessments [EIAs] and strategic environmental assessments [SEA])	<ul style="list-style-type: none"> <li>– Liability instruments</li> <li>– Non-compliance fines</li> <li>– Performance bonds</li> </ul>	

Source: Based on OECD (2013), *Scaling-up Finance Mechanisms for Biodiversity*, OECD Publishing, Paris, <https://doi.org/10.1787/9789264193833-en>.

Economic or incentive-based instruments (sometimes referred to as economic incentives, incentive-based mechanisms or market-based instruments) provide continuous incentives to conserve and sustainably use biodiversity. For example, a tax on pesticides provides an incentive to farmers to use less pesticides, it discourages pesticide use. A payment for ecosystem services programmes, such as Costa Rica’s *Pago por Servicios Ambientales*, provides an incentive to a farmer to maintain or enhance the provision of ecosystem services, for example, by adopting sustainable land management practices or restoring degraded ecosystems.

Regulatory instruments (often called command-and-control approaches), such as standards, regulations and access restrictions also encourage biodiversity conservation and sustainable use. Unlike economic instruments, they do not use price signals to incentivise environmental protection.

The term “positive incentives” was employed in Aichi Target 3 and understood to mean instruments that incentivise conservation, sustainable use and restoration (i.e. biodiversity-positive incentives), whether it is through e.g. taxes that discourage activities that harm biodiversity or biodiversity-motivated subsidies that encourage activities beneficial to biodiversity. Indeed, primary indicators for this target included e.g. the number of countries

with biodiversity-relevant taxes (see the Biodiversity Indicators Partnership website for Aichi Target 3).

A different interpretation of “positive incentives” can be found in the Annex to the current draft Resource Mobilisation recommendation CBD/SBI/3/CRP.15 under paragraph 11 (page 12), where headline action 1.2 refers to efforts to “develop and scale disincentives for actions that are harmful to biodiversity, and develop and scale **positive** incentives to encourage biodiversity-positive action”. In this formulation it appears that positive incentives is used in a different sense, to mean measures that reward (e.g. subsidies/PES) good practice as opposed to economic instruments that disincentivise harmful activities (e.g. taxes). Ensuring a common understanding of the terminology used across the targets and resource mobilisation strategy will be important for facilitating discussions and ensuring clear and sufficiently ambitious language is adopted.

In this submission, the OECD Secretariat refers to “positive incentives” (shorthand for biodiversity-positive incentives) as policy instruments that are positive for biodiversity because they discourage/disincentivise harmful activities or encourage/incentivise beneficial activities. This is consistent with the OECD Secretariat’s understanding of how the term was used in Aichi Target 3 of the 2011-2020 framework.

Governments will need to draw on a suite of regulatory and economic instruments in order to halt and reverse biodiversity loss.<sup>1</sup> This submission focuses on the role of economic instruments in aligning incentives for biodiversity conservation and sustainable use, outlining why it is critical that they are scaled up and made more ambitious.

### **Why is it essential to scale up economic incentives in the post-2020 Global Biodiversity Framework?**

Economic instruments are critical as they are able to reflect the inherent – but mostly invisible – values of biodiversity in economic decision-making. Most of the values of biodiversity are invisible because the benefits they provide to society – such as pollination, nutrient cycling, erosion control, and carbon sequestration – are not reflected in market prices.<sup>2</sup> They are, effectively, free. One of the main reasons for this, is that they are goods or services that are neither rivalrous (access to a public good by any one group of people has no effect on the quantity available to others) nor excludable (no one can be excluded from access to the good). This leads to over-exploitation of natural resources, excess pollution and under-provision of ecosystem services. The resultant costs are borne by society as a whole, rather than the individual producers or consumers of the biodiversity-related goods and ecosystem services.

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<sup>1</sup> Note that some regulatory instruments such as protected areas are already covered in proposed Target 1 of the post-2020 GBF and land and sea-use planning is covered in proposed Target 2.

<sup>2</sup> See also the Note by the Panel of Experts on Resource Mobilisation: CBD/SBI/3/INF/47

These external costs are referred to as negative externalities. Positive externalities also exist e.g. where a third-party benefits from ecosystem services maintained or enhanced by a producer but does not pay for it.

Economic instruments, such as biodiversity-relevant taxes (e.g. on pollution), fees and charges, tradable permit schemes, biodiversity offsets, biodiversity-motivated subsidies and payments for ecosystem services, provide *continuous incentives* to both producers and consumers to behave in more environmentally sustainable ways. By raising the cost/dis-incentivising activities that harm or degrade biodiversity (e.g. taxes or fees and charges based on polluter pays principle) and rewarding/incentivising activities that benefit biodiversity (e.g. payments for ecosystem services based on the beneficiary pays principle) so as to better reflect the true values of biodiversity, positive incentives encourage producers and consumers to behave more sustainably (see Table 2 for some examples and applications).

In addition to Target 18, economic incentives are therefore also critical to achieving Target 14, which states: “**Fully integrate biodiversity values into policies, regulations,** planning, development processes, poverty reduction strategies, accounts, and assessments of environmental impacts **at all levels of government and across all sectors of the economy, ensuring that all activities and financial flows are aligned with biodiversity values.**” [text in **bold** indicates the parts of the target that positive incentives would address]. Economic instruments are key instruments for mainstreaming biodiversity across sectors.

The use of these positive incentives (economic instruments), will also help to reduce the “biodiversity financing gap” (Target 19). They can achieve this by:

- Reducing overall finance needs by reducing harm to biodiversity
- Mobilising biodiversity finance and aligning financial flows with biodiversity targets, by sending a clear policy signal and making sustainable economic activities more attractive to businesses and their investors relative to unsustainable activities.

Economic instruments can therefore help to make a permanent transition to more sustainable pathways. Finance alone will not have this longer-term effect. It is the incentives that must be aligned (i.e. eliminating harmful and increasing positive incentives) in order to ensure continuous results. Without sufficiently ambitious economic incentives in place, the over-exploitation of biodiversity and associated ecosystem services will continue, and the so-called finance gap will therefore also continue indefinitely.

In addition to *aligning incentives* for the conservation and sustainable use for biodiversity, biodiversity-related economic instruments also have the ability to generate revenue, thereby reducing pressure on governments’ budgets, and potentially providing a source of funding for biodiversity. Another advantage of economic instruments is that they can, in theory, achieve a given environmental objective at a lower total economic cost than regulatory (command-and-control) approaches.

In effect, harmful incentives, including subsidies, for biodiversity means that incentives are in place to “pay the polluter to pollute”. Such environmentally harmful incentives include measures such as direct budgetary transfers (i.e. environmentally harmful subsidies), but also other measures such as market price support (e.g. in the context of agriculture). If incentives that are harmful to biodiversity are eliminated or reformed, it would mean that the polluter is no longer being paid to pollute. It would not, however, ensure that the true values of biodiversity are reflected in economic and financial decision-making. For this reason, it is also essential that countries scale up the use and ambition of economic incentives.

For data and trends in the use of these incentives, see [OECD \(2021\), Tracking Economic Instruments and Finance for Biodiversity – 2021](#)

Table 2. Examples of Economic Instruments to Incentivise Biodiversity Conservation and Sustainable Use

Economic instrument	Biodiversity-relevant examples	Examples of applications	References
Taxes	<ul style="list-style-type: none"> <li>• Taxes on resource use, e.g. forests, timber,</li> <li>• Taxes on pollution e.g. pesticides, fertilisers</li> </ul>	France (pesticide tax)	OECD (2013), <i>Scaling Up Finance Mechanisms for Biodiversity</i>
Fees and charges	<ul style="list-style-type: none"> <li>• Hunting and fishing licenses</li> <li>• Entrance fees to national parks</li> </ul>	Finland (hunting)	<a href="#">OECD Policy Instruments for the Environment</a> (PINE) database
Tradable permit schemes	<ul style="list-style-type: none"> <li>• Groundwater extraction</li> <li>• Fisheries</li> <li>• Hunting</li> <li>• Development rights</li> </ul>	New Zealand, Iceland (fisheries)	OECD (2017), <i>The Political Economy of Biodiversity Policy Reform</i>
Biodiversity offsets	<ul style="list-style-type: none"> <li>• Wetland banking</li> <li>• Habitat banking</li> </ul>	Canada, France, USA	OECD (2016), <i>Biodiversity Offsets: Effective Design and Implementation</i>
Biodiversity-motivated subsidies	<ul style="list-style-type: none"> <li>• Agri-environment payments</li> </ul>	Agri-environment payments	OECD (2013), <i>Scaling Up Finance Mechanisms for Biodiversity</i>
Payments for Ecosystem Services	<ul style="list-style-type: none"> <li>• Payments for watershed services</li> <li>• Payments for blue carbon</li> </ul>	Costa Rica, Mexico, USA	OECD (2010), <i>Paying for Biodiversity: Enhancing the Cost-Effectiveness of Payments for Ecosystem Services</i>

Source: Draws on [OECD \(2021\), Tracking Economic Instruments and Finance for Biodiversity 2021](#)

## Clarifications on the incentives, including subsidies, harmful to biodiversity in relation to the Co-chairs reflection paper and Target 18:

The OECD released a report in 2020 on [A Comprehensive Overview of Global Biodiversity Finance](#). This report estimated environmentally harmful support at approximately USD 500 billion a year. The estimate is based on the following data:

- Fossil fuel support: USD 340 billion (2017 data) based on 76 countries [Source: OECD/IEA, 2019]

Potentially most environmentally harmful support to agriculture: USD 116 billion (2017) in OECD countries only [Source: OECD Secretariat calculations based on OECD (2019[32]) "Producer and Consumer Support Estimates", OECD Agriculture statistics (database), <http://dx.doi.org/10.1787/agr-pcse-data-en>]

In 2021, the OECD released the report [Biodiversity, Natural Capital and the Economy](#). This report included updated data (and in the case of agriculture, data from a larger number of countries). It estimated environmentally harmful support at more than USD 800 billion a year. The estimate is based on the following data:

- Fossil fuel support: USD 478 billion (2019 data) based on 81 countries [source: OECD/IEA] Government support to the production and consumption of fossil fuels, according to OECD-IEA estimates, totalled USD 478 billion in 2019 <http://www.oecd.org/environment/governments-should-use-covid-19-recovery-efforts-as-an-opportunity-to-phase-out-support-for-fossil-fuels-say-oecd-and-iea.htm>.

\*Please note, there is now updated 2020 data on fossil fuel support: The latest joint OECD and IEA estimates show that government support for the production and consumption of fossil fuels across 81 major economies totalled USD 351 billion in 2020.

Source: <https://www.oecd.org/fossil-fuels/>.

- Potentially most environmentally harmful and market distorting support to agriculture: USD 345 billion (2017-2019 average) based on **54** countries [Source: OECD 2020] In 2017-19, the 54 OECD and emerging countries covered by the OECD agriculture policy monitoring report provided USD 536 billion of support to agriculture producers annually. Of this support USD 253 billion was provided through budgetary spending to support various programmes and the remainder (i.e. more than half) was market price support. More than half the support to agricultural producers (USD 345 billion) is considered most market distorting and environmentally harmful, while most of the rest does little to help. The most market distorting and environmentally harmful support comprises market price support, payments based on output and payments based on unconstrained variable inputs. Source: OECD (2020), Agricultural Policy Monitoring and Evaluation 2020, OECD Publishing, Paris, <https://dx.doi.org/10.1787/928181a8-en>. OECD (2021), "Biodiversity, natural capital and the economy: A policy guide for finance, economic and environment ministers", OECD Environment Policy Papers, No. 26, OECD Publishing, Paris, <https://doi.org/10.1787/1a1ae114-en>.

It is important to note that the OECD data on government support to agriculture *includes but is not limited to* subsidies. The fraction of total government support to agriculture that is potentially environmentally harmful and market distorting includes various policy measures, including market price support. Market price support is not a budgetary transfer (see Annex 2). As such, market price support cannot be repurposed or redirected. It can however be eliminated or reformed.

While government support to these two sectors is likely to represent the largest share of environmentally harmful support, the total value/volume of environmentally harmful support is likely to be higher when considering harmful support (including subsidies) to other sectors such as fisheries, forestry and water.

The OECD issues data on support to fisheries, at the country level, on an annual basis. The [Fisheries Support Estimate](#) database includes both direct support to individual and companies (including tax exemptions, but without market price support), and support to the sector (for example in the form of infrastructure or services). It further includes payments made by the sector – that is, fees paid by infrastructure and service users, such as for port access or management, and taxes or fees on resource use and associated profits, which reduce the extent to which taxpayers finance support to fisheries.

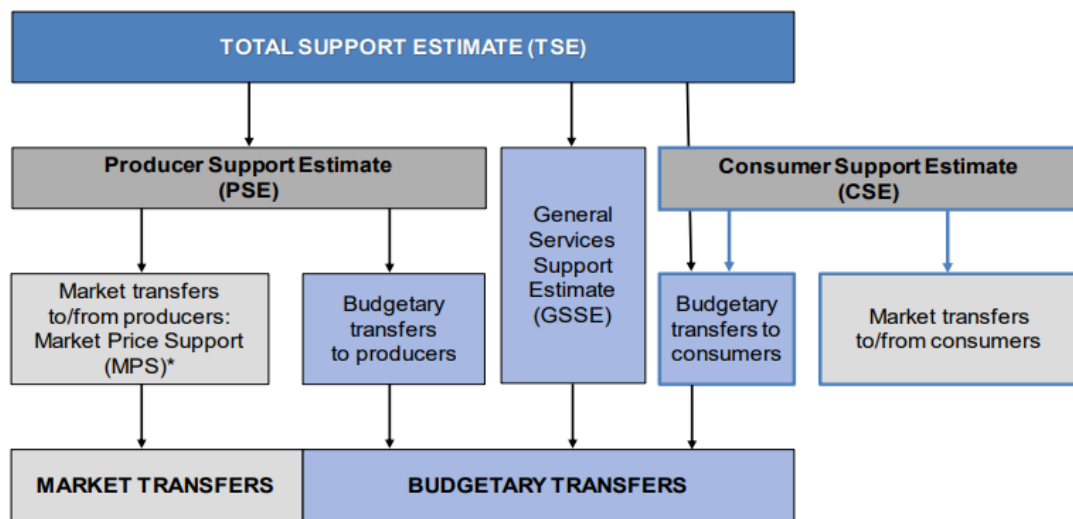
Whether support to fisheries is harmful to biodiversity (primarily through impacts on fish stocks) depends not only on the type of measure and its design but also on the management of the fisheries that receive support, on the status of the fish stocks being targeted (including those that are un-intentionally targeted) and spill-over effects to other stocks. For these reasons, drawing a line around potentially harmful fisheries support is a complicated task. Negotiations are on-going at the WTO, with a view to establishing disciplines on support that encourages unsustainable fishing, including illegal, unreported and unregulated fishing. Such disciplines could serve as a basis to determine what should be considered as potentially harmful support to fisheries.



## Annex 1: The optimal environmental tax

An environmental (or Pigovian) tax is a tax on any market activity that generates negative externalities (external costs incurred by the producer that are not included in the market price). The optimal tax is normally set by the government to correct an undesirable or inefficient market outcome (a market failure), and does so by being set equal to the external marginal cost of the negative externalities. In the presence of negative externalities, social cost includes private cost and external cost caused by negative externalities. This means the social cost of a market activity is not covered by the private cost of the activity. In such a case, the market outcome is not efficient and may lead to over-consumption of the product. An often-cited example of such negative externalities is environmental pollution.

## Annex 2: Structure of OECD agricultural support indicators



Note: \*Market Price Support (MPS) is net of producer levies and excess feed cost.

Source: OECD (2021), *Agricultural Policy Monitoring and Evaluation 2021: Addressing the Challenges Facing Food Systems*, OECD Publishing, Paris, <https://doi.org/10.1787/2d810e01-en>, (Figure 1.7).