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SYNTHESIS REPORT ON INFORMATION RECEIVED FROM PARTIES, OTHER GOVERNMENTS AND ORGANIZATIONS ON THE REMOVAL OR MITIGATION OF PERVERSE INCENTIVES

Note by the Executive Secretary

I. INTRODUCTION

1. In its decision VII/18, on incentive measures, the Conference of the Parties invited Parties, Governments and relevant organizations to submit any information on the removal or mitigation of perverse incentives, including case-studies and best-practices on the application of ways and means as well as any experiences with the application of the proposals, to the Executive Secretary; and requested the Executive Secretary to provide a report thereon to the tenth meeting of the Subsidiary Body on Scientific, Technical and Technological Advice, to assist in the further consideration of the proposals for the application of ways and means to remove or mitigate perverse incentives (UNEP/CBD/SBSTTA/10/12).

2. The present note provides an overview and synthesis of the information received by the Executive Secretary pursuant to this invitation. Most submissions received also included information on positive incentive measures for the conservation and sustainable use of biodiversity and/or on methodologies for the assessment of values of biodiversity and its functions. In accordance with the request of the Conference of the Parties in decision VII/18, a synthesis report on these elements of the submissions will be prepared for the consideration by SBSTTA at its eleventh meeting.

3. The complete submissions can be retrieved from the online information database on incentive measures, at www.biodiv.org (please click on “programmes and issues” and then on “economics, trade and incentive measures”).

4. SBSTTA may also wish to consider the background information compiled by the Executive Secretary in preparation of the second workshop on incentive measures, which convened in June 2003 to elaborate the proposals for the application of ways and means to remove or mitigate perverse incentives as requested by the Conference of the Parties in decision VI/15 (UNEP/CBD/WS-Incentives/2/2 and UNEP/CBD/WS-Incentives/2/INF/1). Document UNEP/CBD/WS-Incentives/2/INF/1 provides information and an extensive analysis on perverse incentives in selected economic sectors. Document

* UNEP/CBD/SBSTTA/10/1.

UNEP/CBD/WS-Incentives/2/2 reviewed important conceptual distinctions and definitions of perverse incentives, summarized the key lessons of the sectoral analyses provided in the accompanying information document (UNEP/CBD/WS-Incentives/2/INF/1), and provided information on contributions and international processes that concentrate on the identification of strategies for the removal and mitigation of perverse incentives, with a view to extracting general conclusions for the elaboration of proposals for the application of ways and means to remove or mitigate such perverse incentives.

II. INFORMATION ON INCENTIVE MEASURES RECEIVED FROM PARTIES AND ORGANIZATIONS

A. Information received from Parties

1. Australia

5. Australia submitted two case-studies of relevance to the removal or mitigation of policies or practices that encourage resource uses leading to the degradation and loss of biodiversity.

Unintended consequences of policy settings for water quality

6. The Australian Government is undertaking a review of agricultural policy settings as part of a program of actions to address the impact of declining water quality on the health of the Great Barrier Reef. Over the last 150 years, extensive land use change in the catchment areas adjacent to the Reef has led to an increase in the sediment and nutrient pollutant loads of rivers flowing into the waters of the Reef. The Australian and Queensland (State) Governments' Reef Water Quality Protection Plan aims to address diffuse source pollution from agricultural land uses, including grazing and cropping, in catchments adjacent to the Reef. The review will undertake a systematic evaluation of existing policies and programs and recommend, where appropriate, alternative means of achieving the objectives of these policies and programs that reduce impacts on the environment.

Biodiversity stewardship payments

7. The submission points out that the subject of the case study fits with the positive incentive instruments identified in paragraph 36 of the annex to decision VII/18, which contains the bracketed proposals for the application of ways and means to remove or mitigate perverse incentives. The case reflects growing interest in Australia in the use of auction or tender systems to stimulate biodiversity protection actions by private landholders. A high profile example of this type of incentive mechanism is the BushTender trial, conducted by the Victorian State Government. In this programme, bids were sought from landholders for entering into contracts to undertake a range of vegetation management actions. The bids were evaluated using a 'biodiversity benefits index' and accepted on the basis of best value for money.

8. The Australian Government is developing principles to guide the design and implementation of biodiversity stewardship programs and to ensure the efficiency and cost-effectiveness of public funding. These principles include:

(a) Allocating biodiversity stewardship payments on the basis of best value for money, assessed in terms of the contribution of the landholders' actions towards achieving public good biodiversity objectives;

(b) Avoiding payments for action that are likely to be of net benefit to landholders, individually or as a group, or are that are otherwise part of landholders' legal obligations;

(c) Allocating payments on a competitive basis, with all landholders who can contribute to the desired outcomes being eligible to participate in the program.

9. The submission explains that the first principle establishes the objectives of the funding under the program in terms of the broader benefits provided to society. The second acknowledges that activity supporting biodiversity conservation can, to variable degrees, also benefit, the landholders themselves and the communities they live in. Combined, these two principles reflect a cost-sharing approach that is consistent with the Australian Government's current policies and programs for natural resource management. The last principle recognises that competition among potential suppliers underpins the cost-effectiveness of voluntary payments approaches. The competitive conditions associated with the tender mechanisms help ensure that no unwarranted economic benefit is conferred on one production sector to the detriment of competing producers, either in Australia or overseas.

2. Austria

10. Austria submitted a number of studies on environmentally counterproductive support measures in Austria, in different economic sectors.

Environmentally counterproductive support measures: Agriculture

11. This report 1/ addresses environmentally counterproductive support measures in the Austrian agricultural sector. It discusses the complexity of agricultural production and argues that agricultural production includes non-commodity outputs and services that are valued by society. The report distinguishes between instruments that are dealt with at a national level and at the European Union level. It provides proposals that could contribute to a further concordance of agricultural activities with environmental requirements, including proposals on the fundamental design of the European Union Common Agriculture Policy. It also describes a general framework under which these proposals could be implemented.

12. The report identifies the market order premiums granted for particular crops and for ruminants as being the support measures with the most important effect on the environment. These premiums have a production-stimulating effect, which in several cases contributes to negative external effects on biodiversity. A possible substitute for market premiums linked to specific crops or livestock are premiums that are (more) de-coupled from production. De-coupled support measures would induce less intensive production practices if farmers actually adjust their behavior according to the changed economic incentives. The report says that de-coupled support seems to be the logical alternative to an agricultural policy model that stimulates production on the one hand and supports set-aside plus extensive farming practices on the other hand.

13. According to the report, the current system of payments being linked to cultivated area or number of livestock is not sufficiently interrelated with the positive or negative environmental effects of farming. On the one hand, there are a considerable number of instances where these payments come at the expense of environmental assets. On the other hand, farms in disadvantaged areas often provide considerable amenities without having access to adequate compensation. Compensations to farmers should be legitimized as a reward for the provision of public goods and services demanded by society. The main benefit of such a stepwise reorientation of the Common Agricultural Policy would be an improved integration of agricultural and non-agricultural elements necessary for a successful development of rural regions, when compared with the current setting of sectoral policy approaches. The incentives provided by different policy areas would be better coordinated and thus would help to avoid a number of tensions between agriculture and the remaining parts of a region.

1/ *Environmentally counterproductive support measures: Agriculture*. Research Report for the Austrian Federal Ministry of Agriculture, Forestry, Environment and Water Management, WPR-Research-Report BMLFUW-2002-03f, March 2002.

Environmentally counterproductive support measures: Energy

14. The study 2/ describes the global impact of energy-related support measures and provides an overview on the development and current situation of energy production and use in Austria. The report proceeds to analyse the potential environmentally counterproductive support measures that are currently in use in Austria, such as direct financial subsidies for coal and R&D, tax breaks, and other measures, and presents a number of options to reform these relevant support measures.

Environmentally counterproductive support measures: Transport

15. This report 3/ addresses environmentally counterproductive support measures for the Austrian transport sector. It provides an overview on which support measures are currently in use in Austria and their quantitative impact. The report also discusses options for the reform of these measures.

3. Czech Republic

16. The Czech Republic informed that the Ministry of the Environment (MoE) of the Czech Republic, in 2001 and 2002, carried out an analysis of public subsidies which have an adverse impact on the environment, and subsidies which are not in accordance with principles of sustainable development. The project considered public subsidies from various sources, including state and local governments budgets, which have adverse effects on the environment, with a view (i) to evaluate the environmental and economic effects of public subsidies in general, (ii) to identify those subsidies with significant impacts on the environment, (iii) select subsidies that are suitable for an immediate detailed evaluation, determined especially by the availability of data, and evaluate these subsidies, in form of case studies, according to a common methodology, and (iv) to elaborate proposals for the adjustment and changes of the contemporary system of providing subsidies. The submission included an information brochure explaining the research process and summarizing its main results, 4/ as well as comments on the chapeau of the submission of the European Community (see section 4 below).

17. After the finalization of the project, a discussion was led on how to use the research results. The submission explained that the Government of the Czech Republic is expected to approve, in 2005, an ecological fiscal reform. This reform was prepared by the Ministry of the Environment in cooperation with the Ministry of Finance. It also includes the identification and mitigation of perverse incentives.

18. The detailed evaluation of selected subsidies with significant impacts on the environment was undertaken in form of six case studies on: (i) system support for the development of municipal transit; (ii) State finances invested into road and rail traffic; (iii) support for reconstructing apartment blocks built using prefabricated concrete panel technology, and support for the construction of rented apartments and buildings providing social care services; (iv) support of infrastructure development in small municipalities – support of general conversion to gas; (v) support of agricultural primary production through returning part of excise taxes; (vi) support for land-use planning.

19. In addition to these detailed analyses, the project also addressed a number of other public support programmes and gave recommendations thereon. Support in the following sectors and programmes were

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2/ *Environmentally counterproductive support measures, Massnahmen im Bereich Energie.* Studie des Österreichischen Instituts für Wirtschaftsforschung im Auftrag des Bundesministeriums für Land- und Forstwirtschaft, Umwelt und Wasserwirtschaft. February 2002.

3/ *Environmentally counterproductive support measures im Bereich Verkehr.* Studie des Instituts für Volkswirtschaftslehre der Universität Graz und des Instituts für Technologie- und Regionalpolitik, Joanneum Research, im Auftrag des Bundesministeriums für Land- und Forstwirtschaft, Umwelt und Wasserwirtschaft. February 2002.

4/ *Analysis of Public Subsidies with an Adverse Environmental Impact that are not in Accord with the Principles of Sustainable Development. Information on the results of the project of the Ministry of the Environment of CR.* Project carried out in 2001 and 2002 (ME No.VaV/320/1/01).

considered: agriculture, water management, forest management, the tax system in general, industry and the public sector.

20. While the project focused on adverse effects on the environment in general, several of the case-studies and their conclusions and recommendations relate to biological diversity:

(a) The refund of the excise tax on gas used in agricultural primary production, arboriculture and during renewal and cultivation in forestry was said to be one of the most adverse forms of support in the Czech Republic. According to the report, this programme intensifies environmental problems in agriculture and therefore merits abolition;

(b) The support for land-use planning intends to incite the spatial and use-specific classification of properties, thereby enabling their rational management as well as environmental improvements through protection and improvement of soil fertility, water management, and enhancement of the regional ecological stability. However, the analysis found out that only an insignificant part (approx. 3 %) of the overall support contributes to these environmental objectives;

(c) For some agricultural support programmes, the study recommended to clarify or update eligibility conditions and rules in the interest of better protecting the environment. Other agricultural assistance programmes were identified to potentially have adverse environmental impacts and to therefore merit a detailed analysis, in particular assistance provided for maintaining agricultural land and property in suitable condition, and assistance provided for bio-fuel production;

(d) For flood-related programmes such as flood damage remediation and anti-flood measures, the study recommended to put more emphasis on water-management aspects and on the integration of these measures into landscape and nature management policies;

(e) The study expressed the view that assistance will continue to play a role in addressing environmental problems related to forest management and will continue to be focused on compensation of damage and/or remediation of the consequences of activities from outside of forestry sector. Other forestry assistance programmes were identified to potentially have adverse environmental impacts and to therefore merit a detailed analysis, in particular assistance provided on stream dikes and forest-engineering meliorations, on renewing forest stands damaged by pollution, on liming from airplanes, and on large-scale interventions for forest protection;

(f) The study recommended to conduct a detailed analysis on the environmental impacts of the classification of products and services in value added tax (VAT) rates, with a view to strengthen environmentally sound behavior and incite beneficial activities. The study cautioned however that the gradual unification of VAT rates in the framework of European Union would narrow the scope for tax differentiation;

(g) The study also recommended re-evaluating, from an environmental perspective, construction and tax rates on real estate, especially for agricultural purposes.

21. As regards the mitigation of perverse incentive measures, the Czech Republic made reference to the State Environmental Fund of the Czech Republic (SEF), under which support is provided in the following areas: water protection; air protection; nature and landscape conservation, soil protection, utilization of natural resources; waste management, technologies and products, utilization of renewable energy sources; as well as the European Union aid programmes—the Instrument for Structural Policies for Pre-Accession (ISPA), the Cohesion Fund and Structural Funds. SEF income consists primarily of fines for pollution or damage to specific segments of the environment.

22. For instance, under the nature and landscape conservation programme, 171 new projects were initiated in 2003, including on park reconstruction, treatment/protection of trees, plantation of trees and re-forestation, establishment of game-proof fencing, pheromone vaporizers, renewal of forest trails for tourists, de-sludging of fish ponds, realization of plans of care for specially protected areas, stream regulation, and erosion control measures.

4. *European Community and its member States*

23. The submission by the Netherlands and the European Commission, on behalf of the European Community and its member States, included information on the European Community in general as well as on three member States, namely, the Czech Republic, the Netherlands, and Spain. The information on the European Community in general is summarized below, while the information on the three member States, for ease of reference, is summarized in section 3 above and sections 5 and 6 below.

24. In its submission, the European Community and its member States acknowledged the importance of adopting economically and socially sound measures that act as incentives for the conservation and sustainable use of components of biological diversity, and said that these measures cover a large field of instruments like monetary incentives (e.g. subsidies, tax exemptions, tax incentives) and non monetary incentives (e.g. regulations, eco-labels, education, research, governance, liability, etc.). With regard to the application of ways and means to remove or mitigate perverse incentives, the submission explained that the Community and its member States consider the draft proposals as contained in decision VII/18 of the seventh meeting of the Conference of the Parties as interim guidance, and will implement inventories, assessments and alternative strategies to remove or mitigate diverging effects according to those proposals. The submission also indicated that, so far, little (but growing) experience is available on the application of those proposals.

25. The European Community further explained that it is not possible to clearly identify those instruments that constitute a perverse incentive over the whole European territory, because most of the European Community biodiversity-related funding mechanisms (such as the funds related to the implementation of the Common Agriculture Policy, the Common Fisheries Policy and the Regional Development Policy) were originally established for other purposes than the conservation and sustainable use of biodiversity and hence potentially affect biodiversity both in positive and in negative ways. The submission included two case studies on the recent reforms of the common agriculture and fisheries policies, which the European Community said to have the aim and the effect of shifting subsidies towards more environmentally friendly (and therefore biodiversity-friendly) measures.

Reform of the Common Agricultural Policy

26. The case-study on the reform of the Common Agricultural Policy, in particular on the last one agreed by the European Council of Ministers in 2003, explained that the establishment of a single farm payment that is no longer linked to production would further reduce incentives for intensive production and could further increase coherence between agricultural and biodiversity objectives. Moreover, compulsory modulation, that is, a reduction in direct payments for bigger farms to finance the new rural development and agri-environment policy, would start in 2005 at a rate of 3 per cent to reach a maximum of 5 per cent to be applied from 2007 onwards. Modulation money would be transferred to the funding of European Union rural development measures including environmental land management measures. The second reform package, on the reform of support regimes for Mediterranean products, has also decoupled the largest part of support from the production of the sectors concerned (olive oil, cotton and tobacco).

27. Furthermore, the study explained that a partial or entire reduction of direct support will be applied in case of non-respect of Community obligations and minimum requirements relating to, among others, the maintenance of habitats and landscape and the protection of permanent pasture, including the prohibition of its conversion to arable land.

Reform of the Common Fisheries Policy

28. The case-study on the Common Fisheries Policy explained that its reform has placed fleet management at the core of the conservation policy. Since January 2003, the introduction of new capacity into the fleet without public aid must be compensated by the withdrawal of at least an equivalent capacity also without aid. Under the reform, public aid for the renewal of vessels will be phased out by 31 December 2004.

29. Support will however still be available to improve safety, product quality or working conditions on board vessels, as well as for reductions in the fishing fleet capacity and fishing effort. Aid is available to ship owners who withdraw their vessels permanently from the European Union fleet and to their crews, as well as to those affected by reductions in fishing activities under recovery plans.

30. The study reported that, over the last five years, the number of European Union vessels was reduced by 11 per cent, while the engine power went down by 8 per cent and the reduction in tonnage amounts to 4.5 per cent.

5. The Netherlands

31. The Netherlands explained that it recognizes adverse incentive measures to be a threat to the conservation and sustainable use of biodiversity, and that adverse incentive measures may prevent positive incentive measures from being effective and efficient. The Netherlands made reference to the work of the OECD Working Group on Economic Aspects of Biodiversity whose collected views, experiences and case studies it considered to be very useful, and made specific reference to an OECD document outlining a systematic and practical approach to subsidies. 5/

32. In addition, the Netherlands provided a selection of national experiences on perverse incentives and their removal or mitigation.

Methods for considering the environmental impact of incentive measures

33. The submission explained that the Ministry of the Environment of the Netherlands has developed methods for considering the environmental impact of incentive measures. These methods are now further developed in order to get methods available considering both the economic and social impacts of incentive measures. They will be sent to Parliament in spring 2005, and upon approval and a parliamentary decision to implement them, will be introduced for screening incentives.

Fiscal reform

34. Fiscal measures were inventoried, and the process of removing and mitigating their perverse effects is ongoing. Specifically, an assessment has been made of possibilities to green the national tax system, and several measures have since been taken or proposed, such as a landfill tax and a groundwater extraction tax. A concrete example for the abolishment of adverse incentives is the favourable VAT rates that used to be applied to chemical pesticides and fertilizers. These substances were shifted from the lower VAT category (6 per cent rate) to the regular VAT category (19 per cent rate).

Representation of local water boards

35. The submission explained that a major task of the local water boards in the Netherlands is to maintain the groundwater-table level. Originally the groundwater-table level in large parts of the country was rather high (approximately 10 cm), which resulted in a very specific biodiversity. In the past, these local water boards were elected by local farmers. In order to improve the accessibility of arable land for farming, the boards were biased to lower the groundwater-table level. The introduction of a more general voting system made non-farmers eligible to vote. At present, this results in a more balanced approach of the boards to the groundwater-table level alterations.

6. Spain

36. Spain explained that the Spanish Strategy for the Conservation and Sustainable Use of Biodiversity, approved in 1998, has established the basis for a correct analysis of the effects of sectoral

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5/ OECD (2003): *When removing Subsidies Benefits the Environment: Developing a Checklist Based on the Conditionality of Subsidies*. SG/SD(2003)17.

policies on biodiversity, which should be the pillar of the public and private action on the removal or mitigation of the negative effects of these policies. Relevant sectors and their effects on biodiversity were already identified, and some were already removed or mitigated.

37. As regards the mitigation of perverse incentives, Spain made reference to a number of funding programmes under the European system, such as the funds available for sustainable agricultural practices applicable in special protection areas for birds (SPAs) and in Ramsar areas, the funds available under the new European Union regulation for rural development, including payments for Natura 2000 sites, and eco-conditionality (the withdrawal of 20 per cent of the amount of aid in cases of lack of compliance with certain environmental requirements). Spain indicated that the Structural Funds and other European initiatives used in both marine and land ecosystems also contain important incentives measures, and provided a list of projects/programmes undertaken under these initiatives. In addition, Spain indicated that incentives are also provided by a number of purely national programmes.

38. With regard to fiscal reform, Spain indicated that environmental taxation in Spain is so far not well developed. Indirect effects on biodiversity could be expected from legislation established in the Canary Islands, which foresees some special regimes for environmental investment, as well as from some provisions in the personal and corporate income tax regime on investments made in environmental assets. For instance, the personal income tax regime was amended in 1998 to allow forest owners who decide to manage their forests in accordance to a sustainable management plan, to accede to a special taxation regime.

B. Information received from organizations

1. Organisation for Economic Development and Co-operation (OECD)

39. The Organisation for Economic Development and Co-operation (OECD) provided further information on its work on environmentally harmful subsidies. The submission explained that the organization has been working on the impacts of subsidies on the environment and the economy for a number of years, and submitted documents summarizing this early work:

(a) *Reforming Energy and Transport Subsidies. Environmental and Economic Implications*. OECD 1997, Paris.

(b) *Improving the Environment through reducing Subsidies. Part I: Summary and Policy Conclusions; Part II: Analysis and Overview of Studies; Part III: Case-Studies*. OECD 1998, Paris.

40. More recent OECD work on the issue was focused on: (i) taking stock of the available data; (ii) agreeing on a set of definitions of support measures in different key economic sectors (iii) elaborating an analytical framework to assess the potential harmful effects of subsidies on the environment (a “checklist approach” has been developed) and (iv) identifying the barriers (e.g. economic and social) to subsidy reform. The outcome of the first phase of this work was reflected in the publication *Environmentally Harmful Subsidies: Policy Issues and Challenges.* 6/

41. The second phase, now completed, focused on testing the relevance and feasibility of the “checklist” on sectors (e.g. energy, transport, fisheries, water). These were discussed at a workshop in November 2003 (*OECD Technical Workshop on Environmentally Harmful Subsidies*), as well as papers on the political economy of subsidy reform. A synthesis report should be released soon. 7/

42. In the context of the 2005-2006 OECD programme on sustainable development, further work on environmentally harmful subsidies will be carried out with a particular focus on the policy issues related

6/ OECD (2003): *Environmentally Harmful Subsidies. Policy Issues and Challenges*. Paris. Please see document UNEP/CBD/COP/7/INF/13, paragraphs 37-38, for more information on this first phase.

7/ OECD (2004): *Synthesis Report on Environmentally Harmful Subsidies*. SG/SD(2004)3/FINAL. Paris.

to subsidy reform. A substantial volume that will give a comprehensive treatment of OECD work on environmentally harmful subsidies during the past three years is also under preparation.

43. Relating specifically to biodiversity, the OECD Working Group on Economic Aspects of Biodiversity has been considering the role of harmful subsidies in impeding the creation of markets, and in particular, markets that would benefit biodiversity. The results of the Group's work will be published in a Handbook of Market Creation for Biodiversity that will be available in mid-November.

44. OECD also recalled its publication *Perverse Incentives in Biodiversity Loss*, a preliminary version of which was provided to the second Workshop on Incentive Measures, organized under the Convention on Biological Diversity in June 2003. The final publication was also made available to the ninth meeting of the Subsidiary Body for Scientific, Technical and Technological Advice as an information document (UNEP/CBD/SBSTTA/9/INF/34). A summary of this publication was provided in paragraphs 40-42 of the synthesis report on information on incentive measures received from Parties and organizations prepared by the Executive Secretary for the seventh meeting of the Conference of the Parties (UNEP/CBD/COP/7/INF/13).

2. United Nations Environment Programme (UNEP)

45. The United Nations Environment Programme provided information on the final release of two publications on economic instruments for policy-making:

(a) *The Use of Economic Instruments in Environmental Policy: Opportunities and Challenges*;

(b) *Economic Instruments in Biodiversity-related Multilateral Environmental Agreements.*

46. Both documents make reference to perverse incentives and the need for their removal or mitigation. 8/ The first publication underlines that the identification and removal or mitigation of such perverse incentives should be an integral part of any policy package. The second publication provides an overview of the work of biodiversity-related multilateral environmental agreements on perverse incentives as well as a number of brief case-studies, and suggests a number of further activities, including: the further sharing of national experiences among mulitlateral environmental agreements; case-studies on specific eco-regions, and on subsidy reforms (as opposed to the elimination of subsidies); analysis of effects on subsidy reforms on developing countries; need for cooperation among relevant organizations; review of prioritisation within economic and other incentive measures.

47. Moreover, the Economics and Trade Branch also announced the publication of *Analyzing Resource Impact of Fisheries Subsidies: A Matrix Approach*. This publication builds on earlier UNEP work that developed a matrix as an analytical framework for assessing the impact of subsidies. Using this framework, this study offers a detailed assessment of the impact of eight categories of subsidies taking into account the specific characteristics of a fishery, including its level of exploitation and its management regime.

48. A discussion paper *Incorporating Resource Impact into Fisheries Subsidies Disciplines: Issues and Options* was published as a complement. This paper considers the potential implications of the conclusions drawn in the "Matrix Paper" for an international reform of subsidies. With the aim of stimulating dialogue, it offers one view of several possible options for incorporating the impact on resources into existing and new World Trade Organization (WTO) disciplines on fisheries subsidies. 9/

8/ Comprehensive summaries of these publications were provided in paragraphs 48-50 the synthesis report on information on incentive measures received from Parties and organizations prepared by the Executive Secretary for the seventh meeting of the Conference of the Parties (UNEP/CBD/COP/7/INF/13).

9/ The two publications are available for download at: http://www.unep.ch/etu/etp/index.htm

3. *United Nations Forum on Forests (UNFF)*

49. The United Nations Forum on Forests made reference to a number of relevant documents from recent UNFF sessions and ad hoc expert group meetings.

50. Perverse incentives and their removal or mitigation were in particular addressed in a report of the Secretary-General on the progress in implementation on economic aspects of forests, prepared for the third session of the UNFF. 10/ This report underlines that economy-wide policy reforms and activities in sectors other than the forest sector can have impacts on forests, which can be even more significant than those from activities within the sector. For example, trade liberalization and agricultural subsidies were mentioned among the issues that may have impacts on the forest sector, and should be taken into consideration in policy formulation. The report indicated that cross-sectoral impacts on forests and forest-dependent people will likely be addressed by mainstreaming forest concerns into the overall economic development policies of a country, and by incorporating cross-sectoral influences in national forest programmes.

51. The report explained that perverse subsidies (both explicit and implicit) are prevalent in tropical and temperate forests in both developing and developed countries and have recently been estimated to amount to about US$ 14 billion per year (including US$ 4 billion estimated for tropical areas alone). Implicit (or concealed) subsidies can accrue to loggers and processors owing to low stumpage prices arising from inefficient rent collection and artificially depressed log prices as a result of trade restrictions. A common example of an explicit subsidy in forestry is financial support for reforestation, which may, if it is not well designed, encourage deforestation.

52. Subsidies in other sectors can have harmful effects on forests as well. Agricultural subsidies to crops, plantations and cattle-ranching, for example, reduce the relative profitability of forest stands and have the demonstrated impact of accelerating deforestation. Also, some income subsidies for relocation encourage transmigration into forested areas, and often induce land conversion and deforestation.

53. According to the report, the removal of perverse subsidies will likely improve the climate for sustainable forest management and trim unnecessary expenditures from the public budget. The Doha round of trade negotiations offers the opportunity of reducing agricultural subsidies across the board in both developing and developed countries. However, reducing perverse subsidies originating in the forest sector has proved to be a difficult challenge because of vested group interests. Nevertheless, given their potentially large adverse impacts, this report said that this should be an important area for future scrutiny, analytical clarification and action.

54. Reference to the analysis on perverse subsidies contained in this report was also made in a note by the UNFF secretariat on financing for sustainable forest management, prepared to assist the UNFF Ad Hoc Expert Group on the Finance and Transfer of Environmentally Sound Technologies in carrying out its tasks. 11/ The Expert Group subsequently recommended removing perverse incentives that reduce the profitability of sustainable forest management and undermine the demand for investments in environmentally sound technologies. 12/

4. *World Trade Organization (WTO)*

55. A number of WTO processes are relevant for the removal or mitigation of perverse incentives emanating from policies. First, in the context of the negotiations aimed at clarifying and improving disciplines under the Agreements on Implementation of Article VI of the GATT 1994 (on trade remedies such as anti-dumping and countervailing duties) and on Subsidies and Countervailing Measures,

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10/ UNFF (2003): *Progress in Implementation on Economic Aspects of Forests*. Report of the Secretary-General. E/CN.18/2003/7.

11/ UNFF (2003): *Note by the Secretariat on Financing for Sustainable Forest Management: Current Challenges in the Changed Financial Environment*. E/CN.18/AC.2/2003/2, paragraph 51.

12/ UNFF (2003): *Report of the Ad Hoc Expert Group on Finance and Transfer of Environmentally Sound Technologies*. 15 -19 December 2003, Geneva (E/CN.18/2004/5), page 14, paragraph 40 (t).

participants shall also aim to clarify and improve WTO disciplines on fisheries subsidies, taking into account the importance of this sector to developing countries. 13/ Successful negotiations on this issue may create synergy with the objectives of the Convention, because a number of subsidy types are suspected in the international discussion to generate incentives to expand the capacity of fisheries fleet or to keep capacity levels artificially inflated, which, in turn, often leads to unsustainable catch levels and negative impacts on fish stocks as well as marine biodiversity in general. 14/ The issue continued to be the subject of discussion in the WTO Negotiating Group on Rules; however, according to the recent report of the chairman of the group, the discussion of multilateral subsidy discipline issues generally, including those relating to fishery subsidies, have not yet reached the degree of specificity that now characterises the trade remedy discussions. 15/

56. Second, the negotiations on agriculture are also relevant. These negotiations aim at substantial improvements in market access; reductions of, with a view of phasing out, all forms of export subsidies; and substantial reductions in trade-distorting domestic support. A number of support measures, in particular measures that distort trade by inciting the intensification of agricultural production, will sometimes generate perverse incentives for the conservation and sustainable use of biodiversity. To remove these types of support will thus create synergy with the Convention. 16/ Other measures, such as measures taken under agri-environmental policies, have the potential to create positive incentives for conservation and sustainable use. 17/

57. At the Doha meeting, Ministers further committed to these negotiations and agreed that special and differentiated treatment shall be an integral part of all elements of the negotiations. They also confirmed that non-trade concerns, including environmental concerns, will be taken into account in the negotiations. Further to the breakdown of negotiations at the Ministerial Conference in Cancun, Mexico, in September 2003, WTO members on 31 July 2004 agreed on a framework package to keep the Doha Round trade alive. This package includes a framework for the establishment of modalities for the negotiations on agriculture. 18/ The provision on the so-called “Green Box” is of particular interest to the Convention. When meeting a number of criteria, domestic support to farmers falls into the Green Box: it is assumed to be not or only minimally trade-distorting, and is therefore exempt from reduction commitments. Payments under environmental programmes are part of the Green Box. According to the framework, criteria for the Green Box will be reviewed and clarified, while ensuring that the basic concepts, principles and effectiveness of the Green Box remain and take due account of non-trade concerns.

13/ Doha Ministerial Declaration, paragraph 28.

14/ See UNEP/CBD/WS-Incentives/2/INF/1, section II., for a summary of the discussion.

15/ *WTO Negotiating Group on Rules. Report of the Chairman to the Trade Negotiations Committee*, TN/RL/10, paragraph 8.

16/ See UNEP/CBD/COP/7/INF/14 for an extensive discussion.

17/ Ibid

18/ WT/L/579, Annex A.