Market-based options for biodiversity: an overview

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Need for policy instruments

- All societies depend on environmental goods and services (directly or indirectly)

- Most environmental values are **implicit** rather than explicit
  - ➢ private costs and benefits ≠ social costs and benefits

- Why? "Public good" characteristics, externalities, imperfect information...
  - ➢ over-exploitation, unsustainable use of natural resources, pollution ... leading to undersupply of biodiversity and ecosystem services

- Regulatory (command-and-control) approaches; Economic instruments; Other information/voluntary instruments

- Economic instruments (~ market-based options) seek to provide correct price signal to producers and consumers i.e. bridge the divide between private and social costs and benefits

- Overall objective : how to get highest biodiversity benefits at minimum cost. What is **best feasible policy mix** to achieve intended goal?

Selecting appropriate instrument mix

- Environmental, economic and distributional implications of policy instruments depend on *inter alia*:
  - Nature of environmental problem and drivers of loss
  - Design and implementation features of instruments
  - Governance and institutional capacity

- What do we mean by economic/market-based options?
  - Taxes, charges, user fees, subsidies
  - Payments for Ecosystem Services
  - Biodiversity Offsets/Biobanking
  - Individually transferable quotas
  - Certification [information instruments]

Examples of applications

Taxes/charges/ user fees/subsidy	PES	Biodiversity offsets	Tradable permits - ITQs
Many (local, national)	> 300 programmes worldwide (local, national, international)	> 45 programmes worldwide (project, local, national)	
Cuba, Denmark, Philippines, Sweden, etc	Australia, Costa Rica, Mexico, Sweden, Kenya, USA, etc	Australia, Brazil, Canada, Mexico, Uganda, UK, USA, etc	Australia, Canada, Iceland, Netherlands, New Zealand, USA, etc
e.g. Norway reduced fishery subsidies by USD 120 million	**5** national PES channel > USD 6.5 billion per year (OECD, 2010)	USD 2.4-4 billion (Madsen 2011)	
Pollution (fertilisers, NOx) national park access fees, timber rent taxes, etc	Biodiversity, watershed services, climate, landscape beauty	Species, wetlands, forests. Impacts from mining, pulp & paper, etc	Fish

Some closing remarks…

- Each environmental problem has different characteristics, and is driven by different underlying and proximate causes
- <u>All</u> policy interventions can have positive and negative impacts (will generate winners and losers)
  - Need to design carefully, monitor results and adapt over time
- Economic instruments not a panacea $\Longrightarrow$ should be used in a policy mix - but they can
  - be more cost-effective
  - generate revenue/finance (from public and private sector)

Some reports and publications

- OECD (2010) *Paying for Biodiversity: Enhancing the Cost-Effectiveness of Payments for Ecosystem Services*
- OECD (2009) *Promoting Biodiversity Co-Benefits in REDD*
- OECD (2008) *People and Biodiversity: Impacts, Issues and Strategies for Policy Action*
- OECD (2008) *Natural Resources and Pro-poor Growth: the Economics and Politics*
- OECD (2005) *Environmental Fiscal Reform for Poverty Reduction*
- OECD (2002) *Handbook of Biodiversity Valuation: A Guide for Policy Makers*

www.oecd.org/env/biodiversity