
Environmental Harmful Subsidy (EHS) Reform Toolkit

Introduction to a new OPPLA Tool

Patrick ten Brink, IEEP

Building on the paper by: S. Withana, P. ten Brink, A. Illes, E. Watkins, D. Russi

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Session Structure

- **History and development within OPERAs**
- **The Tool and how to use it**
- **Main steps in the Tool**
- **Who can and should use the Tool**
- **Next steps**
- **Question and Answers**

EHS Reform Toolkit: History and development

Toolkit builds on:

- OECD tools for identification and reform of EHS
- Work on subsidies by the CBD Secretariat et al. in context of TEEB
- Studies on EHS by IEEP et al. in the 2000s for the European Commission

• First toolkit (general):

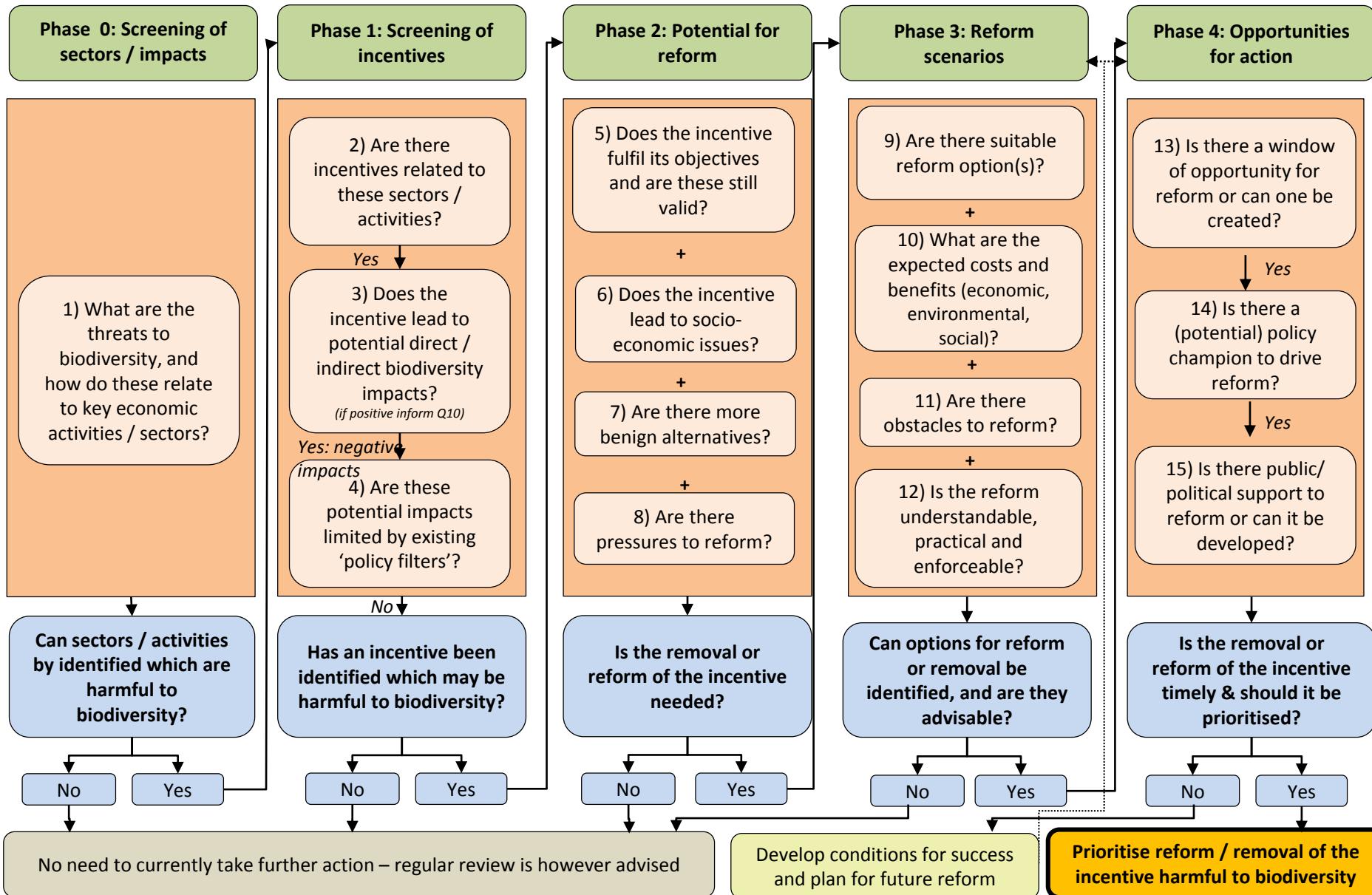
- Identify subsidies harmful to the environment
- Guidance to policy-makers on how to assess and reform subsidies
- Case examples

• Specific toolkit for biodiversity:

- Developed and piloted in the UK (and included in submission to CBD)
- Applied in Flanders, Belgium
- Used in Finland

• Developing within OPERAs to integrate ESS and NC

EHS Reform Flowchart



The tool and how to use it

Aim:

- Support countries to identify and assess incentives harmful for biodiversity, understand potential reform options and prioritise reform efforts.
- Provide a practical guide to policy-makers considering actions to implement Aichi Biodiversity Target 3.

Structured around 5 phases and steps:

- **Phase 0:** Scoping sectors and activities
- **Phase 1:** Screening subsidies and incentives
- **Phase 2:** Assessing potential for reform
- **Phase 3:** Identifying & assessing reform options
- **Phase 4:** Identifying opportunities for action

Defining subsidies and incentives

'A result of a government action that confers an advantage on consumers or producers, in order to supplement their income or lower their costs'
(OECD, 2005)

'Deviations from full costing' (Pieters, 1997)

'Incentives, including subsidies harmful to biodiversity' (CBD)

Phase 0: Scoping sectors and activities

To identify whether there any particular activities or sectors that directly or indirectly have an effect on NC and ESS

- Step 1: Are there any particular activities or sectors that directly or indirectly affect NC & ESS?

- Fisheries
- Agriculture
- Water sector
- Energy sector
- Transport sector
- Urban sprawl
- ...

Synthesis of Phase 0

(1) Can sectors/activities be identified that affect NC & ESS?		No
		Yes, although relatively small affects
		Yes, significant direct/indirect affects that merit attention

Phase 1: Screening subsidies and incentives

To identify subsidies and incentives likely to have significant impacts on NC & ESS and should be further assessed

- Step 2: Are there incentives related to these sectors/activities?
- Step 3: Does the incentive lead to (potential) direct/indirect impacts on NC & ESS?
- Step 4: Are these potential impacts limited by existing ‘policy filters’?

- In **Cyprus, Poland, Portugal, Romania, Slovenia and Spain** a lower rate of VAT applied on pesticides
- Provision of free transport infrastructure, transport taxes, favourable company car taxation in **Flanders**
- In **Finland**, taxes applied on peat for heat production do not take into account energy content and CO₂ emissions (unlike taxes on other energy sources)

Synthesis of Phase 1: Screening of subsidies & incentives

(1) Is there a subsidy/perverse incentive?		No
		Yes, although relatively small
		Yes, substantial subsidy in place
(2) Does the incentive lead to potential direct/indirect environmental impacts?		No or very limited impact (if a positive impact proceed to Questions 7 and 9)
		Some potential negative impacts
		Significant potential negative impacts
(3) Do existing 'policy filters' avoid/mitigate its impacts?		Yes, so overall impact is limited
		Some mitigation, but not sufficient to offset the impact(s) of the subsidy
		None in place or ineffective
Therefore, is there an incentive/subsidy that is harmful to the environment?		No
		Yes, although effect on the environment is limited
		Yes

Phase 2: Assessing potential for reform

To better understand whether a subsidy needs reform and how this can be justified

- Step 5: Does the incentive fulfil its objectives and are they still valid?
- Step 6: Does the incentive have unintended social and/or economic impacts?
- Step 7: Are there more benign and/or effective alternatives to the incentive?
- Step 8: Are there calls/pressures for the reform or removal of the incentive?

- In **France**, use of nitrogen-rich fertilizers leads to eutrophication, development of toxic bacteria and phytoplankton, and green algae invasion along parts of the coast
- In **Spain**, subsidies for scrapping fishing vessels contribute to capacity problems and do not necessarily lead to lower fish landings

Synthesis of Phase 2: Potential need for reform

(1) Does the incentive fulfil its objectives and are these objectives still valid?		No
		Yes, although relatively small
		Yes, substantial subsidy in place
(2) Does the incentive lead to any unintended social and/or economic issue?		No or very limited impact (if a positive impact proceed to Questions 7 and 9)
		Some potential negative impacts
		Significant potential negative impacts
(3) Are there more benign and/or effective alternatives that are hindered by the incentive?		Yes, so overall impact is limited
		Some mitigation, but not sufficient to offset the impact(s) of the subsidy
		None in place or ineffective
(4) Are there pressures for the incentive/subsidy to be reformed or removed?		No
		Yes, although effect on the environment is limited
		Yes
Therefore, should the incentive or subsidy be reformed/removed?		There is no problem and/or no opportunities for improvement (i.e., the incentive fulfils its objectives, offers important social benefits; there are no alternatives and no calls for reform)
		Reform is advisable, although it should be approached with caution (e.g., where there are few alternatives available [immediately] or where there is little pressure for reform)
		There is a significant problem and reform options should be assessed with a view to identifying promising reform initiatives

Phase 3: Identifying and assessing reform options

To clarify available reform options and their implications

- **Step 9: Are there suitable reform option(s) and what are they?**
- **Step 10: What are the expected costs and benefits of the reform?**
- **Step 11: Are there obstacles to the reform/ removal of the incentive and how can they be overcome?**
- **Step 12: Is the reform understandable, practical and enforceable?**

- In **Ireland**, revisions to the salmon management regime in 2007 included the closure of Irish mixed stock fisheries, a doubling in the price of fishing licenses with revenues earmarked to the Salmon Conservation Fund. To address negative socio-economic impacts, a dedicated hardship scheme was established to support fishermen who opted to exit the sector.
- In **Denmark**, the pesticides tax was reformed in 2013 to be based on environmental and health impacts. To compensate for negative economic impacts from the increased prices, the tax revenues are used to reimbursed through a percentage reduction in the land value tax.
- In **Estonia**, revenues from hunting and fishing fees are earmarked to the Environmental Investment Centre (EIC) and used to support research, conservation actions and awareness raising.

Synthesis of Phase 3: Reform options

(1) Are there suitable reform option(s)?		Yes (and what are they?)
		Partially
		No
(2) What are the expected costs and benefits of reform?		Benefits outweigh costs* (synthesis across different costs and benefits, making use of monetary values and most likely also other indicators of cost and benefits) and are overall equitable
		Costs and benefits are of the same magnitude
		Costs outweigh benefits and/or there are important equity concerns
(3) Are there obstacles to or pressures for the reform or removal of the subsidy?		No or limited obstacles, suggesting that reform is possible
		Some obstacles to reform, suggesting that reform may be encouraged but with caution
		Obstacles to reform are significant (stop and explore whether these can be addressed – if so the light can change)
(4) Is the reform practical and enforceable?		Yes (and explain how)
		Partially
		No (and explain how)
Therefore, can options for reform or removal be identified, and is reform recommended?		Yes, proceed with the reform initiative
		Partially (e.g., additional measures needed)
		No, reform/removal of the incentive should not be attempted at this stage, e.g., there is no suitable reform option, and/or costs are too high compared to benefits. However, this does not mean abandoning the reform objective completely, but

Phase 4: Identifying opportunities for action

To understand the readiness and timeliness of reform

- **Step 13: Is there a window of opportunity for reform?**
- **Step 14: Is there a potential champion for reform?**
- **Step 15: Is there public/political support for reform?**

- In **Portugal**, the government established a commission to reform environmental taxes in January 2014 as part of a wider discussion on addressing the fiscal consolidation challenge. The commission undertook extensive stakeholder consultations and a number of its proposals were subsequently put forward in legislative proposals, including a proposed tax on GHG emissions and a plastic bag charge.
- In **Ireland**, the revision of the salmon management regime was supported by a growing body of scientific evidence, stakeholder consultations a decision by European Commission to take Ireland to the ECJ for failure to implement provisions in the EU Habitats Directive for salmon.
- In **Denmark**, reforms to the pesticide tax in 1996 was part of a wider green tax reform led by a cross-ministry commission.
- **International commitments under the CBD and the SDGs**
- **Requirements under EU legislation** - Article 9 of the Water Framework Directive

Synthesis of Phase 4: Timeliness of reform

(1) Is there a window of opportunity for reform?		Yes (describe which it is, when and what needs to be done to make use of the window of opportunity)
		Partially
		No
(2) Is there a potential policy champion to reform?		Yes (describe who it is or could be – institution and/or individual)
		Partially
		No
(3) Is there public/political support for reform?		Yes (note which community or stakeholder group)
		Partially
		No (if likely opposition, note where this is expected to come from)
Therefore, is the reform timely and does it merit prioritization?		Yes, reform is timely and should be prioritized and taken forward
		Partially/not a priority yet
		No, reform/removal should not currently be attempted (e.g., there is no current window of opportunity for reform or there is a lack of political/public support). This does not imply that no action should be taken, but rather a focus on developing conditions for success and planning reform as soon as it is feasible

Way Forward

Within OPERAs

- Finish fine-tuning the tool
- Any relevant examples from OPERA and beyond are welcome
- Ensure it is an available OPPLA tool! **Aim:** End June

Beyond OPERAs

- Disseminate tool
- See if CBD Secretariat can encourage CBD COP signatories to use
- See if countries and regions apply by 2020 target date!

Key References

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www.operas-project.eu • info@operas-project.eu



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