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Incentives against nature?

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In a few days, the 11th WTO Ministerial Conference will open (11 to 13 December, Buenos Aires, Argentina), during which the international community will discuss the subsidies granted to the fisheries sector. But can this issue of subsidies that are harmful to the state of resources and biodiversity only be addressed at the international level? IDDRI Associate Researcher Raphaël Billé, coordinator of the [RESCCUE[1]] project at the [Pacific Community (SPC)], explains how a development project can help to meet the challenges of greening taxes and subsidies.

What is the “greening taxes and subsidies” initiative conducted as part of the RESCCUE project?

Raphaël Billé - The aim of the RESCCUE project is to increase the resilience of the Pacific island communities and ecosystems to climate change. It operates in particular in Fiji, New Caledonia, French Polynesia and Vanuatu. In addition to other tools for action, it strives to design and implement financing mechanisms that are "innovative", or that generate economic incentives or additional financial leeway for the protection of ecosystems. This is the context in which we are examining the opportunities provided by greening taxes and subsidies, in partnership with the governments concerned and a team of regional and international experts. We have conducted a regional review of the fiscal mechanisms (including tax exemptions) and subsidies that have adverse environmental impacts and could therefore be reformed, as well as those that have positive impacts and should be reinforced. This regional review was discussed and enhanced recently during a series of national workshops in Fiji, French Polynesia and Vanuatu. In New Caledonia, a more in-depth analysis is underway, and includes modelling of the socio-economic and budgetary impacts of possible reforms, which is crucial for policy-making. This research will also be discussed with the stakeholders involved in 2018.

Which mechanisms are concerned?

Raphaël Billé - Most Pacific Island countries and territories (PICTs) are characterised by small, geographically isolated populations, and fragile economies. Consequently, the activities conducted there are strongly influenced by taxes and subsidies. Whole segments of the island economies are thus dependent on incentive mechanisms, without which there would not be enough profit to maintain certain activities. This is the case in New Caledonia, for example, where nickel mining and processing, which are largely tax-exempt, are one of the main causes of terrestrial biodiversity loss as well as being one of the main drivers of the economy and employment. In Vanuatu, a lot of commercial fishing gear is exempt from tax in order to support this sector, which can impact resources. Kerosene also benefits from exemptions there to support household energy consumption, and in Fiji, wetland drainage for agricultural development purposes is also still subsidised.

French Polynesia and New Caledonia have a number of tax exemptions aimed at facilitating tourism and urban development, with very real consequences in terms of the creation of artificial landscapes – especially by the sea. However, all of these countries and territories have also implemented environmentally friendly incentive mechanisms: subsidies for organic farming in New Caledonia and for individual solar panels in Vanuatu; fishing quotas but also customs exemptions for imports of hybrid vehicles in Fiji; and tax credits for investment in the collection, sorting and recycling of household and/or industrial waste in French Polynesia, etc. One of the concerns raised by stakeholders during our national workshops is that some of these supposedly virtuous incentive mechanisms actually have an environmental record that is either mixed, depending on the parameters considered, or highly dependent on the local context. For example, the collection and processing of end-of-life photovoltaic panels or electric/hybrid vehicle batteries pose serious problems for most of the Pacific Islands.

How have the Pacific Island countries and territories reacted to this initiative? Is there a desire for reform in this field?

Raphaël Billé - We were told to expect the worst when we launched this initiative! But in reality, the issue is more mature than we might realise and we should not overplay the reluctance of public and private stakeholders to discuss it. It is of course eminently political: every harmful tax mechanism or subsidy benefits a group of stakeholders who are likely to suffer directly from any potential reform. There are therefore few or no simple measures with a low political cost in this field. This is why progress is slow at the international level, and the Pacific is no exception. That said, several useful strategies have been identified, emerging from international experience. I will mention two in particular:

- considering compensatory measures for the redistributive effects of reforms far upstream: for example, the Convention on Biological Diversity refers to the case of Ghana, which eliminated fuel subsidies in 2005. Since this measure would harm the poorest people first, the government simultaneously abolished school fees and developed public transport, using the resources freed up by the elimination of fuel subsidies;

- targeting in particular the tax mechanisms and subsidies that not only have an adverse environmental impact, but also stray from their initial socio-economic goals, for example by increasing inequalities in favour of a wealthy minority, or by failing to generate the jobs promised when they were set up. These are the least politically defensible mechanisms, and there are many of them.

Taking strategic precautions of this kind rather than launching an indiscriminate “crusade” with nothing in return against all harmful economic incentives means our Pacific partners are not afraid of the issue. The consultations we conducted have shown that it is generating a good deal of interest, including political interest. The regional and technical approach adopted by the RESCCUE project also helps to temper the debate by enabling capacity building in this field, which is often seen as abstruse. The analysis now needs to be translated into practical measures, which can only be achieved by determined governments driven by dynamic civil societies. Some of the countries and territories with which we are working have already asked us to support them further on the journey towards implementation. [1] Restoration of ecosystem services and adaptation to climate change, financed by the French Development Agency and the French Global Environment Facility for a duration of five years (2014-2018).

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