



Report of the Third Working Group Meeting On Economic Instruments

Geneva, Switzerland
17-18 February 2003

Introduction

1. The third meeting of the Working Group (WG) on Economic Instruments (EIs) was held at the International Environment House in Geneva, Switzerland on 17-18 February 2003. The aim of the meeting was to review two UNEP working papers, entitled *Opportunities, Prospects and Challenges for the Use of Economic Instruments in Environmental Policy Making* and *The Use of Economic Instrument to Implement Selected Multilateral Environmental Agreements*, while further exchanging national experiences on the use of EIs in achieving environmental policy objectives through the presentation and discussion of five UNEP commissioned country projects.
2. The meeting was opened by Hussein Abaza from UNEP who welcomed the more than thirty experts attending the workshop, and gave an overview of the work undertaken by the Economics and Trade Branch (ETB), particularly related to economics and EIs. Hussein Abaza noted that the country projects have advanced significantly since their inception in 1999 and that many, having effectively selected and designed policy packages and instruments to address environmental challenges, are now at a phase of implementation.

Session 1: Discussion on the “Opportunities and Challenges” Report

3. Anja von Moltke from UNEP opened the session with an introduction to the *Opportunities, Prospects and Challenges for the Use of Economic Instruments in Environmental Policy Making* report. She cited the UNEP Governing Council mandate to further promote the development and application of EIs and the proposal by the second meeting of the WG to prepare a technical document to assist developing country policy makers from environment, finance and sectoral ministries in developing and implementing EIs. Towards this end, UNEP had commissioned Doug Koplow to take the lead with support of the WG to develop a practical guidance document on the use of EIs for environmental policy making. A number of members of the WG had contributed to the document and had reviewed and provided comments and input into its first draft.
4. Doug Koplow presented the current version of the *Opportunities and Challenges* report. In providing policy makers with a practical user manual on the use of economic instruments, he noted that the approach to the report has been largely driven by political economy, providing readers with case studies and general “rules of thumb” that illustrate tangible situations in which EIs have been applied. The aim of this design is to offer an intuitive understanding of where EIs work best and what they can accomplish. The report is organized in a manner that categorizes the use of EIs based on the structure of the situation rather than the environmental harm being addressed. With a focus on developing countries, the report provides a four-stage framework to assist decision makers in selecting, designing and applying EIs to address localized environmental challenges.

5. Participants were in broad agreement that the report was well designed and effective in its approach, with many adding that it gave fresh light to the existing work on the topic of economic instruments. The suggestions that followed generally focused on content additions and certain structural changes that could enhance its readability and ultimate application by policy makers.
6. Regarding the study's introduction, it was emphasized that slightly more discussion could be provided on the concept of EIs. This might address why, despite their apparent benefits, they are not yet broadly adopted. It might also add clarity in the distinction between command and control measures (CACs) and EIs and provide more discussion on their complementarity. In giving broader indication as to how to prioritise between environmental challenges given local conditions, it was suggested that a table be incorporated that discusses EIs according to sector specific problems and identifies those EIs commonly used to resolve them.
7. It was emphasized that EIs should remain simple in their design and not be seen as a panacea. In promoting successful adoption of EIs, the report should emphasize the gradual approach to their implementation. Concerning the four-stage framework, it was suggested that Phase One includes a discussion on weighing costs and benefits of alternative policy options given certain institutional capacities, Phase Two broadens the stakeholder discussion and Phase Three includes a more detailed illustration on the process of implementation and notes the role of *ex-post* evaluation and the need for a feedback mechanism.
8. Participants noted that corruption indices referenced in the paper were somewhat subjective and potentially biased. It was suggested that the Global Competitiveness Report would be an important reference to add in support of evaluating the effectiveness of governing institutions. Regarding the issue of positive subsidies, it was generally felt that while this report could not adequately accommodate the importance of this issue, the topic should be referenced, while further noting that such subsidies when applied should be only transitional.
9. In discussing the application of EIs through the use of case studies, it was suggested that further developing country conditions (including those of Least Developed Countries), environmental issues, as well as complexities be incorporated in order to further illustrate the reality of the use of EIs in situations where markets and institutions do not necessarily operate effectively. The report would also benefit from addressing ownership structures and discussing the use of EIs in the context of privatisation, noting the contribution of multinationals to environmental pollution and natural resource extraction.
10. The overall context of the discussion could be broadened. Participants emphasized the importance of discussing EIs along more general policy aims, to include the relationship between environmental and development objectives, such as poverty alleviation. They also suggested to address the use of EIs in relation to trade and the WTO, including market access issues, competitiveness and environmental services. Policy coordination between different sectors and policy instruments was considered most important.
11. In addition, there were several suggestions made to structurally improve on the user-friendly nature of the document given its largely policy maker audience. Participants noted that the terminology should be defined in a table or matrix that would also differentiate between terms commonly used interchangeably (e.g. economic instruments vs. economic incentives). The template for assessing important factors affecting instrument choice (exhibit 2) could also be simplified. The title could be changed to "Processes, Benefits and Challenges in the Use of Economic Instruments in Environmental Policy Making", as processes more accurately describes the step-by-step approach and benefits is more attractive to policy makers. And last, participants added that the current executive summary should be shortened and simplified to a less technical overview.

12. Doug welcomed the comments from participants, and noted that he would incorporate to the degree possible the suggestions from the Working Group. He cautioned about the challenges of linking the paper within a broader development context, given the interest to keep the document short and simple.

Session 2: Country Perspectives

13. The five presentations of UNEP-commissioned country studies, made by Kenya, the Philippines, Indonesia, Argentina and Uganda, illustrated their experiences on the application of EIs in various economic sectors. Some of the accounts provided insights into the potential use of the methodology proposed within the “Opportunities and Challenges” Report.
14. The Kenyan country study focused on the problem of solid waste management in Nairobi with an emphasis on industrial wastes and evaluated the application of EIs in improving the handling, treatment and disposal of such wastes. In the current environment, EIs are generally not extensively used, in large part due to illegal waste disposal. The country team identified various constraints that have contributed to the current limited use of EIs, which include among others under-financed local authorities that lack monitoring and enforcement capacity, limited information on abatement costs and technology, and generally low cost-recovery and efficiency in waste collection. In implementing an EI to ameliorate the problem, the country team proposed focusing on producer and user charges applied towards reducing production, consumption and disposal of polythene bags through bag re-use and cloth bag adoption. The country team will send a detailed proposal to UNEP-ETB regarding the EI to be addressed and ways to do so.
15. The Philippines case study, undertaken by the University of the Philippines Los Baños, evaluated the effects of applying two EIs in the Mt. Makiling Forest Reserve that aimed to protect the Reserve and conserve water usage. Following broad stakeholder agreement as to the need for charges in maintaining the Reserve, entrance fees for forest recreation and ecotourism were either upgraded or applied, and water user fees were proposed to be charged. In the case of entrance fees, the project found that the revenues were substantial and that their collection was relatively straightforward given their application at controlled entrance locations. The challenge to their use, however, was that park revenues were only partially returned to park authorities, the amount of which was insufficient to fully fund the Reserve’s management activities. Regarding the application of water user fees, the project team faced obstacles given the University’s lack of a legal mandate to collect fees and the difficulty in accurately monitoring usage. In this case, it was found that a command-and-control measures were also needed to complement the EI. It was proposed that future work would be undertaken to evaluate water usage from different groups, and apply varying price levels depending on usage. The priority for the team however lies in addressing the political barriers towards the application of water charges. With the help of UNEP, the project team will continue to seek the support of the Chancellor of the University in implementing water fees and keep UNEP closely updated on its success.
16. The Indonesian country case study focused on the application of economic instruments on industrial activities with a primary focus in pulp and paper mills. As a result of growing trade liberalization and the opening of Indonesian markets to foreign investors, industrial growth has been significant while also bringing increased pollution and wastes. The decision to focus on the pulp and paper industry was a result of its significant financial contribution to the national budget as well as its broad relation to up and down-stream economic activities. In assessing the current climate of environmental protection within the pulp and paper industry, it was found that no explicit CAC or EI measures apply, but generally soft-loans and tariff-free imports are used on waste treatment equipment for all industry. In its current state, the project has yet to identify an EI which may apply, however, the multi-stage framework proposed in the Opportunities and Challenges Report will provide effective guidance in selecting an appropriate instrument. After a detailed internal discussion the country team will send a work plan on developing a specific EI with clear timelines to UNEP.

17. The Argentine case study presentation illustrated the potential for the application of an individual transferable quota (ITQ) system in promoting more sustainable production within the Argentine fisheries sector. Following previous work carried out by the country team, which identified the need and potential for the use of such an EI, the opportunity for future work is in providing technical assistance to the Argentine Government in moving towards implementation. The use of quotas has to be applied according to species, vessels or zones and would establish natural resource access rights for marine fisheries exploitation. Certain challenges associated with the design and implementation of a quota system include the high degree of market concentration among relatively few producers, the influence of lobbying efforts, the need to provide flanking measures in compensation for lost income and employment, and the importance of monitoring catch yield from vessels. The MoU agreed between CEDEA and the Argentine government will be submitted to UNEP for its signature.
18. The country report on Uganda reviewed the effects of trade liberalization on inland fisheries, while further identifying an array of policy mechanisms, to include EIs, which can be implemented to maintain sustainable fisheries production. Currently, fish exports account for the second largest foreign exchange earnings in the country. However, this dependence in the industry has threatened its long-term sustainability, as the resource is increasingly depleted, biodiversity lost, and significant amounts of effluent from processing plants emitted into water streams. The various policy recommendations proposed include the use of a quota system applied to fish processing plants, strengthening the monitoring control and surveillance of management activities, controlling fishing effort and setting appropriate marginal sustainable yields (MSY) for Uganda's major water bodies. The country team will decide on the EI to be further developed and send a workplan with timelines to UNEP.

Session 3: Report discussion on Economic Instruments in the context of MEAs

19. The second day started with a discussion on the draft report on *The Use of Economic Instruments to Implement Selected Multilateral Environmental Agreements* commissioned by UNEP and written by Nicola Borregaard and Matthew Stilwell. The study originated out of the UNEP Governing Council mandate "to study the effectiveness of market-based incentives in achieving the objectives of MEAs" as well as the interest of the Secretariats of the Convention on Biological Diversity (CBD), the Convention on International Trade of Endangered Species of Wild Flora and Fauna (CITES) and the Ramsar Convention on Wetlands (Ramsar) to have UNEP provide technical assistance on the subject matter.
20. Nicola and Matthew presented the study, emphasizing that it is a first draft that will benefit from the review and comments of the WG. The study illustrates the various types of EIs used in the implementation of biodiversity-related Conventions, including property rights, market creation and fiscal instruments. This is followed by an analysis of existing provisions in the CBD, CITES, and Ramsar and subsequent decisions by the Conferences of Parties for the use of EIs. The study then illustrates case examples for the use of EIs to implement and achieve the MEAs' goal. This discussion is structured by six thematic areas, including conservation and sustainable use, raising financial resources and sustainable trade. The conclusion, which is yet to be elaborated, will contain suggestions and practical ways in which EIs can be used by policymakers at the national level and highlight possible linkages between the MEAs.
21. In the discussion, participants focused their comments on content and structure improvements that largely aimed to provide greater depth on the issues and more tangible analysis on EIs, their relation to MEAs and their application at the policy level. Regarding the general discussion on EIs, it was suggested that the report should provide clearer terminology definitions, and link these to eventual definitions in the *Challenges and Opportunities* Paper. The report should distinguish more clearly between economic incentives and other incentive measures such as social and legal examples that could complement EIs and MEAs and include the use of "financing mechanisms" in the discussion of

EIs. The question was raised on how EIs could marry the divide of benefits of biodiversity generally being felt in more global than local terms. The relation between those that finance biodiversity's conservation and those that enjoy its benefit was also addressed.

22. Participants also agreed that there should be a greater focus on developing countries' concerns. This could include a further identification of the constraints to the use of EIs in such countries given several conflicting objectives, e.g. protecting certain species versus meeting basic human consumption needs. It was also suggested to give greater emphasis to sustainable use rather than conservation and to address the impacts of perverse subsidies, all topics for which their effects and perception are different in developing countries than they are in developed countries. The discussion could also be linked to broader development objectives, such as poverty reduction or the "Millennium Goals" and include reference to the trade and environment interface.
23. It was also mentioned that the discussion on EIs should distinguish between their use respective to each MEA, as they can carry different importance and meaning depending on the convention. The discussion should also look to broaden the synergies between the conventions, such as noting CBD's work on national policies and its relationship to CITES, while also highlighting their distinctions. It was also noted that the components of biodiversity – genetic, species and ecosystems – should be discussed according to the specific MEA towards which they most apply.
24. It was also suggested to distinguish between, and to adequately address agricultural and non-agricultural biodiversity. In the case of the former, there are a distinct set of incentives that might apply as a result of globalization and the opening of markets. It was added that incentive measures that promote conservation of in-situ agricultural biodiversity be discussed. Other important elements to add include the effects of privatising property rights on plants and animals.
25. The issue of subsidies was also discussed. It was generally felt that they should be reviewed within the report, to include their effects in developing countries, but care should be taken to what degree and depth, as there still remains significant controversy surrounding the topic. Evidence to support the perverse subsidy discussion could also extend to incorporating existing case studies on their removal, and if there are generally few, it might be addressed why this is so. The discussion should distinguish between perverse and positive subsidies.
26. Participants suggested that in wrapping up the discussion, the paper should indicate which are the most effective instruments in achieving biodiversity objectives, while also highlighting those that have incurred the most obstacles. In addition to giving advice on national implementation, the section should also illustrate how international coordination of these policy and market objectives could assist in the implementation of EIs and how this might be achieved. And last, when illustrating EI implementation, it should be noted that political barriers are often greater than the practical and legal ones and that political economy often remains the driving force. Finally, the study should also reference the existing OECD handbook as well as work on valuation, incorporate a glossary section to explain key terms and technical jargon and have an executive summary.
27. Before the session was closed, Juan Carlos Vasquez of the CITES Secretariat presented the outcomes of the recent 12th Conference of the Parties meeting in Santiago where EIs were discussed. He informed Working Group members of an upcoming workshop on EIs organized by the CITES Secretariat and solicited their advice on further work of the Secretariat and on potential collaborative efforts between CITES and the EI working group. It was suggested to keep the discussion of trade measures and EIs for implementing CITES distinct. A number of references for relevant work were provided to CITES.

28. The aim of Session 4 was to discuss the progress of the WG within the frame of UNEP's and other institutions' work on EIs. Anja opened the session by explaining UNEP's work on subsidies in the energy and fisheries sectors. Current initiatives extend to collaborative work with the OECD that aims to feed into the WTO negotiations on fishery subsidies and an upcoming publication that assesses the challenges of reforming energy subsidies through case study examples and methodological review based on regional workshops undertaken with the IEA. The Energy Branch has, in addition, taken the lead on publishing guides on Emission Trading and the Clean Development Mechanism and is currently looking at a possible project to use EIs in the transport sector. Anisur Rahman from the Division of Environmental Policy Implementation informed participants about UNEP's recent activities related to Capacity Building and EIs in the context of enforcement.
29. The discussion then turned to participants to assess the progress of the Working Group by reviewing the existing work to date and the approach taken by UNEP in conducting these WG meetings. Participants expressed that for many attending, representing governmental, non-governmental, inter-governmental and academic institutions, the exchange of ideas and experiences was enormously valuable and the process itself was seen as a form of capacity building. It was also mentioned that, this being the third meeting, discussions were increasingly well balanced between all participants, including developed and developing countries and that the outputs were extremely valuable.
30. With the two reports being long in arrival, due in part to its elaborate review process as well as the postponement of the WG meeting, UNEP was encouraged to shorten the review process and publish documents in a more speedy fashion. Instead of drafting documents that rely on contributions of several WG members it was suggested that the most efficient way was for the WG to serve as a review committee of UNEP-commissioned papers.
31. Participants made several suggestions for improving the dissemination and promotion of UNEP publications. It was felt that UNEP could make better use of the existing network of the Working Group itself, national research institutions and experts, the MEA Secretariats, negotiators in their COPs as well as other contacts in the governments. All these could help disseminate UNEP reports and assist in their usage. The launch of UNEP documents could be accompanied by more formal events, an e-mail release strategy and increased press coverage in order to reach out to a larger group.
32. It was also felt that the marketing and use of UNEP studies needed to be aimed more strategically at policy makers both at the regional and national levels. This could be carried out through regional conferences as well as national stakeholder workshops that UNEP regularly conducts in relation to its country projects. The experts of the WG offered to play a larger role in distributing the documents in the region and bringing them to the desks of policy makers.
33. In promoting the studies, governments could also be invited to present on their current use of and need for EIs. It was proposed that UNEP assists in field-testing both reports at the national level looking at a specific environmental problem. Criteria could be established to facilitate the working group's selection of future projects. The topics of sturgeon trade, deforestation, chemicals or certain biodiversity hotspots were proposed. The objective of cases chosen would be to apply approaches from a variety of recent work areas, including EIs, trade, removal of perverse subsidies and building institutional capacity. Lessons from such country projects could then be incorporated into subsequent editions of the reports.
34. Future studies on the use of EIs to implement MEAs could extend to such Conventions as Basel, Chemicals, Desertification and the Montreal Protocol. It was also discussed that future work on the use of EIs and the environment needed to incorporate broader development objectives such as poverty alleviation and equity and income distribution, while also addressing other macroeconomic policy, including trade-related issues. It was suggested that advocacy material be prepared to

convince policy makers about the benefits of EIs in addressing environmental and development problems.

Closing of the Meeting

35. With participants having assessed the working group's course of activity, the meeting was closed by Hussein Abaza, who welcomed the suggestions provided by the Working Group and expressed thanks to the participants for their contributions to what was a very positive and productive event. He furthermore congratulated the work of the report authors, as well as those that had provided contribution and review.