



14th February 2002

Report of the Second Working Group Meeting on Economic Instruments

Chavannes de Bogis

31st Jan – 1st Feb 2002

1. The second meeting of the Working Group (WG) on Economic Instruments (EIs) was held in Chavannes de Bogis on 31st January and 1st February 2002 (for a list of participants see Annex I). The aim of the meeting was to review the report 'Constraints to the Use of EIs and Ways to Overcome Them' and to decide on the further output and modalities of work of the WG in the lead up to the World Summit on Sustainable Development (WSSD) in Sept 2002.
2. Presentations were made on the regional experience regarding the use of EIs (Africa, Asia, Latin America and OECD countries). The need for institutional and technical capacity building, especially in developing countries, to overcome obstacles, such as those outlined in the report, was emphasized. There was agreement, however, that the main obstacles to be addressed through this Working Group lie in the political and inter-ministerial negotiations process for introducing EIs, including specifically the lack of basic legal frameworks and policy mandate.
3. The final aim of the Working Group should be to strengthen the bargaining power of environmental ministries viz-a-viz finance and sectoral ministries for introducing EIs, addressing the resistance and lack of trust in the effectiveness and efficiency of EIs amongst certain government sectors, civil society and the private sector through a clear strategy for acceptance building at the national level (early coordination of national ministries, clear purpose and target, early warning, close involvement of stakeholders, etc).
4. A broader definition of EIs including accompanying policies and measures such as information flows and transparency was called for. It was noted that through existing tax systems and pricing policies a number of indirect market-related, but often disguised, instruments are already in place in developing countries. For the OECD a broad approach on environmental tax reform through removing environmentally harmful tax provisions (e.g. distortionary subsidies), restructuring existing taxes and introducing new environmentally-related taxes, was presented.
5. The use of EIs in Multilateral Environmental Agreements (MEAs) was addressed through presentations by representatives of the Secretariats of the CBD, CITES and the Basel Convention. Recent COP decisions were cited that encourage the use of EIs at the national level and envisage further work on EIs at the international level. Some EIs call for an internationally coordinated effort in order to address international competitiveness issues. It was suggested that programmes such as debt swaps, information, labeling, certification and liability schemes also be considered as international EIs. There was general agreement that

UNEP could provide useful guidance to MEAs on the design and use of EIs, in particular through providing a forum for sharing such experiences.

6. It was decided that UNEP, with support of the WG, should prepare a technical document, that would help middle-management civil servants from environment, finance and sectoral ministries - mainly in developing countries - to identify opportunities for the use of EIs at the national and international level. This document will be an elementary guide to help policy makers to use EIs in order to achieve national environmental objectives and to promote trade and environment policies as well as to achieve the objectives of selected MEAs. Environmental ministries could use the document to convince economics, finance and other line ministries of the benefits of EIs from environmental, social and economic perspectives.
7. The document could have the following title: 'Opportunities, prospects and challenges for the use of Economic Instruments in environmental policy-making'. It should give a clear political message encouraging the use of EIs in environmental policy under differing circumstances, and identify ways of overcoming constraints in their design and implementation. It would particularly address the policy context and conditions (e.g. legal and fiscal system, ministerial coordination, macroeconomic conditions and industry structure as well as pollution specificities) under which EIs could succeed and outline their implications for the choice of EI as complements to command and control (CAC) measures.
8. Bearing in mind that the structure of the document will evolve during the drafting process, the following structure was proposed:

1. Introduction

- a. Definition of EIs
- b. Rational for their use
- c. Issues to be considered:
 - i. Macroeconomic policies
 - ii. Choice of EIs
 - iii. Mix between EIs and CAC
- d. Political economy
- e. Outline of the paper

2. Development and Distributional Issues

- a. Poverty reduction and development
- b. Trade and market access

3. Framework

- a. Baseline conditions
- b. What, When, How
- c. Monitoring and evaluation

Issues relating to political feasibility (budgetary, trade and competitiveness implications, vested interests) will be addressed.

4. Applications

- a. Natural resources
- b. Pollution
(sectoral applications: agriculture, fisheries, energy, water, forestry)

5. International Dimension

- a. The use of EIs in MEAs
 - i. CBD
 - ii. CITES
 - iii. Basel
- b. Internationally effective EIs
 - i. Dept swaps
 - ii. Labeling and certification schemes
 - iii. Liability

6. Direction

- a. Capacity building
 - i. Elaborated document on impacts of EIs on trade and poverty
 - ii. Regional approach
 - b. Intergovernmental Working Group
 - i. Enhancing national level coordination
 - ii. Improving information flow
 - iii. Addressing competitiveness issues
 - iv. MEAs/WTO
 - v. Opportunities
 - 1. Fiscal reforms
 - 2. SAPs
 - 3. Regional agreements
- To be elaborated

7. Annex

- a. List of websites and contacts
- b. References
- c. Bibliography

9. The document will be preceded by a one-page executive summary for high-level policy makers (clear political message) and a 5-page executive summary for civil servants (middle management). Especially these summaries will be an important input to the WSSD process.

10. It was agreed that the report would be a UNEP document with acknowledged contributions by the WG members. UNEP will take the lead in preparing the document while receiving the following contributions from members of the WG:

Chapter	Lead contributions	With Inputs from
Chapter 2 (Development and Distributional Issues)	Veena Jha / Nuria Castells	Lesli Lipper, Salah El Serafy, Theo Panayotou

Chapter 3
(Framework)

Doug Koplow

Jan Pieters

Chapter 4
(Applications)

Natural Resources

Herminia Francisco

Deb Bhattacharya
Adebola Okuneye
Markus Lehmann

Pollution

Jean Acquatella

Chapter 5
(International Dimension)

Internationally effective EIs

Konrad von Moltke,
Veena Jha

MEAs

MEA secretariats
Lesli Lipper

11. The following timeframe was agreed upon:

- 8. Feb: UNEP submits outline and division of work to WG
- 22 Feb: WG participants submit case studies to lead author of application section (s.a.)
- 6 March: lead authors send contributions to UNEP
- 28 March: UNEP sends first draft of report to WG
- 15 April: WG participants send comments on first draft from WG to UNEP
- 29 April: UNEP sends revised draft to selected governments for review and prepare Executive Summary for Prep Com 4 (27 May).
- 15 June: Deadline for governments' comments

12. Depending on the comments received and in order for the document to impact WSSD, a meeting of government-nominated experts could take place before or at the WSSD. The final form of output for WSSD will still have to be decided.

Annex: List of Participants

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