

RESCCUE



GREENER TAXES AND PUBLIC SUBSIDIES IN PACIFIC ISLAND COUNTRIES AND TERRITORIES (PICT)

OVERVIEW OF RESCCUE'S REGIONAL ACTIVITY

Making taxes and public subsidies more “sustainable” is the challenge the Pacific Community took on as part of the [RESCCUE](#) project’s support for the development of innovative economic and financial solutions.

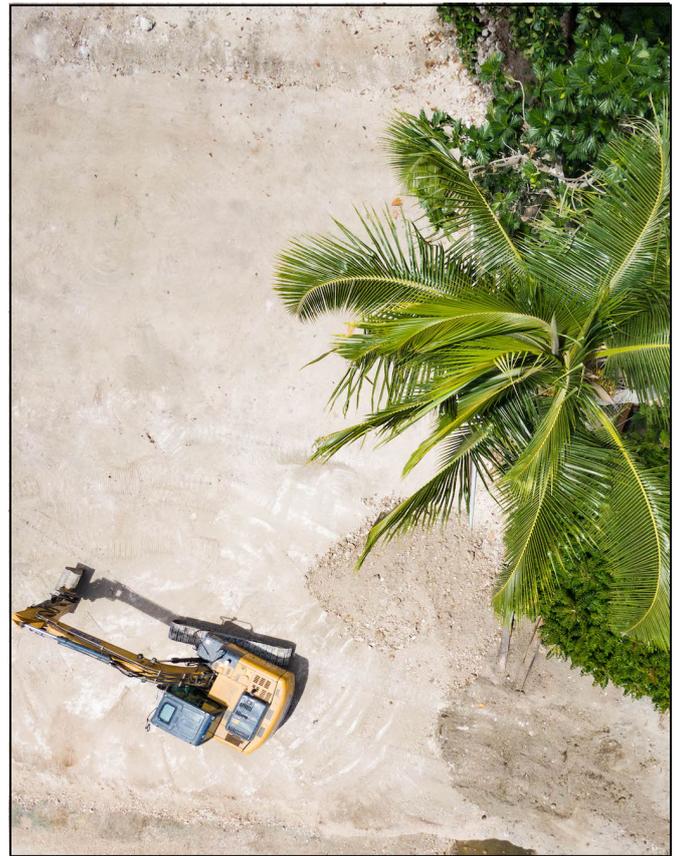
Taxes and subsidies cover a wide range of instruments such as direct and indirect taxes, tax exemptions, subsidies, customs duty waivers, etc. They often provide important, and sometimes even vital, financial support to many economic activities. Potent drivers of those activities and consumer behaviour, taxes and subsidies can be used to promote sustainable development. This is not new, since at the same time as a series of scientific papers¹ and studies on the topic, driven in particular by the European Commission², OECD³ and the World Bank⁴ during the 1990s and 2000s, the World Trade Organization (WTO) Ministerial Conferences in Doha in 2001 and then in Hong Kong in 2005 specifically focused on fishing subsidies as the topic of international negotiations – both commercial and environmental. This was the case again during WTO’s 11th Ministerial Conference in 2017.

In addition, the Convention on Biological Diversity’s (CBD) strategic plan adopted in Nagoya in 2010 set, among other [objectives](#)⁵ (no. 3), that “By 2020, at the latest, incentives, including subsidies, harmful to biodiversity are eliminated, phased out or reformed in order to minimize or avoid negative impacts, and positive incentives for the conservation and sustainable use of biodiversity are developed and applied...” Emblematic of the will, as part of the CBD, to take on those sectors of activity that have the greatest impact, this objective led to a variety of initiatives in the early 2010s such as the Sainteny Report⁶ in France. Parties to the CBD had indeed committed to confirming as from 2018 their Aichi Target action plans⁷. After the 2010 biodiversity targets failure, the credibility of the CBD and international environmental commitments was at stake.

[The Sustainable Development Goals](#), adopted in 2015 under the United Nations umbrella, also include a goal⁸ for 2020 to “prohibit certain forms of fisheries subsidies which contribute to overcapacity and overfishing, eliminate subsidies that contribute to illegal, unreported and unregulated fishing and refrain from introducing new such subsidies.”

So we should now be entering into an environmental tax and subsidy reform implementation phase. However, since the States have reported little progress to the CBD and most PICTs are bound by such international commitments⁹, the decision was made to have RESCCUE provide support in that regard. A dedicated regional activity was designed together with more detailed work first in New Caledonia and then in French Polynesia. Strong synergy did exist between such regional support and RESCCUE's objective to develop innovative economic and financial mechanisms for biodiversity and resilience at its pilot sites. Indeed environmental tax and subsidy reforms can:

- ✓ free up for the environment some financial resources that already exist but have previously been used elsewhere (e.g. by eliminating harmful subsidies);
- ✓ generate additional financial resources (e.g. *via* green taxes or the elimination of tax loopholes);
- ✓ reduce funding needs (by reducing perverse incentives and so, over the long-term, environmental damage).



©SPC

AT THE REGIONAL LEVEL

Launched in partnership with the CBD Secretariat during the 2016 IUCN World Conservation Congress in Hawaii, this regional activity was carried out by the Institute for European Environmental Policy (IEEP) and three Australian research centres (Australian National University, CSIRO and the University of Queensland). It concluded with [a final report](#) that focussed on three RESCCUE pilot sites, i.e. Fiji, French Polynesia and Vanuatu, while a similar but more in-depth study was carried out at the same time by another team in New Caledonia (see below).

Taxes and subsidies have usually been set up with social and/or economic goals. Their impact on the environment, whether positive or negative, has generally been overlooked up to now in the region



©SPC

In Vanuatu for example, many types of fishing gear are tax-free as support to that sector and this can have an impact on resources. Kerosene is also subject to exemptions in Vanuatu as support to household energy consumption and the same is true in Fiji, where it also appears that draining wetlands for farming is still subsidised. In both French Polynesia and New Caledonia, there are a large number of tax breaks designed to facilitate urban and tourism development that often lead to building up the landscape, particularly right along the shoreline.



©SPC

Governments have also implemented “green” incentives designed to help protect the environment.

Subsidies are allocated directly to the development of single-dwelling solar panels in Vanuatu, or to organic farming and waste sorting and recycling in French Polynesia. Hybrid vehicles imports in Fiji also benefit from Customs duty waivers.

However, it should be noted that certain “green” instruments have sometimes had mixed environmental performances, as the context can greatly influence their effects. For example, in most Pacific islands, once photovoltaic panels or electric /hybrid vehicle batteries have reached the end of their useful lifespans, they become a serious problem in terms of their collection and treatment.



©SPC



©SPC

The final report reviews nine economic sectors in all, i.e. mining, fisheries, agriculture, transport, waste management, water management, urban development, tourism, and energy. By identifying both good and bad practices in terms of fiscal instruments and subsidies, the document helps:

- gain recognition for the decisive effects that taxes and subsidies have on ecosystem protection and climate change resilience,
- share experience in making tax schemes and subsidies greener, and
- pave the way for reforms in that area.



©SPC

An outcome of wide-ranging consultations and experience-sharing workshops with a diverse range of stakeholders (governments, civil society, public agencies, the private sector), the report provides an overview of the existing tax schemes and subsidies in each economic sector and suggests possible reforms to help make them greener.

IN NEW CALEDONIA

Supported by the Government of New Caledonia, the Northern and Southern Provinces wanted to have a territory-wide study carried out on greener tax and public subsidies, whose main objectives were as follows:

- identifying the main environmental effects of taxation (including local and national tax relief, para-fiscal levies and Custom duty waivers) and public subsidies in New Caledonia, i.e. negative effects to be mitigated as well as positive effects to be strengthened;
- developing concrete proposals for initiating change in taxation policy and public subsidy allocations at the territorial, provincial and municipal levels;
- assessing the intended changes' potential environmental, budgetary, social and economic impacts.



©QUENTIN DELVIENNE

Carried out in partnership with the UNC LARJE (University of New Caledonia Legal and Economic Research Laboratory), Vertigo Lab and Didacticiel et Modélisation Économique (DME), the work was divided into five areas:

- Conducting [a review of current taxes and subsidies](#);
- Analysing [the effects that taxes and subsidies have on the environment](#);
- Formulating [greener tax and public subsidy proposals](#);
- Assessing [the budget, environmental and social/economic impacts of the proposed reforms](#);
- Discussing the results and recommendations with the institutions and civil society during the mid-term and final feedback sessions.



©JEAN KAPÉ

Three underlying concerns, i.e. consistency, rationalisation and simplification, influenced the selection, presentation, discussion, and, for some, evaluation of greener measure proposals, listed below:

In the building sector:

- Eliminating certain tax breaks, particularly the RILI (tax cuts to promote investment in mid-income housing);
- Subsidy bonuses/penalties depending on the types of building materials;
- Environmental criteria (make the “Green worksite charter” mandatory).

The nickel sector is very specific with extraction and processing, which benefit from extensive tax breaks, being among both the main causes for terrestrial biodiversity erosion and the main drivers of the economy and employment. Given the constraints of the two existing tax stability agreements, two measures are recommended:

- Reforming surface-area royalties: in addition to the existing surface royalty, add XPF 5,000 per tonne of extracted nickel metal sold irrespective of metal prices on the London Metal Exchange;
- Creating a sovereign fund.



©SPC

In the transport sector, in order to reduce greenhouse gas emissions:

- A bonus/penalty system on fuel consumption for professional and private users (setting an emission ceiling that would take the form of emission credits).

Reforming the TAP (tax to support pollution control efforts):

- Enlarging its scope to cover certain products such as cement, paint, solvents, pesticides, at a rate of 3%;
- Extending the TAP fund's work scope and strengthening its governance.



©MARGOT MESNARD

IN FRENCH POLYNESIA

Under the regional greener taxes and government subsidies activity, a workshop was held in Papeete in November 2017 where the in-depth approach chosen by New Caledonia was presented. The Government of French Polynesia, through its Ministry of Environment, then requested RESCCUE's assistance in taking the idea further.

Through a funding partnership involving RESCCUE, the French Biodiversity Agency (AFB), and the French Polynesia Department of Marine and Mining Resources (DRMM), SPC was able to launch this initiative in July 2018, and it was carried out by Vertigo Lab in association with the French Polynesia consultants PTPU. It had exactly the same objectives as the work done in New Caledonia, but analysis was limited to the primary sector: aquaculture, fisheries, pearl farming, crop farming and animal husbandry. The work covered three areas:

- Producing [a review of current taxes and subsidies, together with an analysis of their effects on the environment](#);
- Developing [proposals on greener taxes and subsidies](#);
- Assessing the proposed reforms' effects on the budget, environment, society and economy.



©MARGOT MESNARD



©MARGOT MESNARD

There were 18 greener measure proposals in all. Those that the Government of French Polynesia selected for detailed assessment are listed below, in four categories:

- Optimising aid monitoring and strengthening award criteria;
- Making such assistance a tool to promote the sustainability of activities:
 - Introduce environmental criteria for aid related to land and plantation development;
 - Reduce the use of aid for investments in small-scale farm equipment;
 - Eliminate or overhaul indirect fuel aids for fishing;
 - Criteria for tax waiver authorisations (fishing and agriculture).
- Using tax leverage to take into account this sector’s externalities and promote changes in behaviour:
 - Use duty waivers as leverage for environmental action, in pearl farming for example.
- Raising funding for environmental actions.

RESULTS

This activity showed that private or public stakeholders’ reticence to opening discussions on greener taxes and subsidies should not be over-anticipated.

This does, of course, touch on some highly political issues: every harmful tax mechanism or subsidy benefits a group of stakeholders who are likely to be negatively impacted by any reform. No easy measures with low political costs exist. This is also a complex area that is very specialised technically, requires large amounts of data and one in which regional expertise is lacking. This may, in part, explain why progress has been so slow across the globe¹⁰. Specifically in the Pacific, there is the added difficulty that tax departments are not as well-structured as and have fewer human resources than elsewhere in the world, which can hinder the introduction of efficient and effective fiscal policies.



Having said that, there is a good understanding overall that “greener” taxes and subsidies help ensure consistency in public policy and can promote vibrant economic activity. Several types of leverage were identified that are likely to strengthen social and political demand for reform. Particular attention should be given to:

- targeting first the “black sheep”, i.e. those tax mechanisms and subsidies that not only have negative impacts on the environment but also stray from their original social and economic objectives, e.g. by exacerbating inequalities for the benefit of a wealthy few or by not having generated the jobs promised when they were introduced. These mechanisms are the hardest to defend politically and quite a few of them do exist;
- designing measures well upstream to compensate for the reforms’ redistributive effects. The Convention on Biological Diversity readily mentions the case of Ghana¹¹, which eliminated fuel subsidies in 2005. As the measure risked hitting the poor most, the government eliminated school fees and developed public transport with the resources made available by eliminating fuel subsidies;
- playing the transparency card and ensuring wide-ranging and informed public discussions. Many of the environmental sector’s regular stakeholders are unfamiliar with tax issues, and, on the other side, “tax experts” are generally not too aware of environmental issues. An overall effort to raise capacities is needed so that such discussions and negotiations are not taken over by a small circle of experts or built on common misperceptions;
- using any favourable factors and political windows of opportunity: wider tax reforms, budget crises that require cuts to public expenses, introduction of new public policy (e.g. climate action plans), international events and related political commitments, etc.



©SPC

By mobilising this type of leverage rather than going on a freewheeling crusade against all harmful economic incentives, the topic is not the political “repellent” one might fear. The consultations carried out on various aspects of this activity demonstrated that it did, in fact, generate high interest, even politically. RESCCUE’s regional and technical approach also helped to have constructive debates.

These analyses and proposals still need to be converted into concrete measures, something that can only be done by determined governments pushed on by dynamic and well-informed civil society and private sector. The follow-up that the Forum Fisheries Agency (FFA) and the Office of the Pacific Ocean Commissioner (OPOC) is now giving, *via* their [Pacific Ocean Finance Program](#), to the pioneering work carried out as part of RESCCUE, shows the level of interest generated and serves as an immediate guarantee that the topic will not be left off the regional agenda in the near future.

AUTHORS

Raphaël Billé et Jean-Baptiste Marre

EDITION

Mélanie Farman

©PACIFIC COMMUNITY (SPC) 2019

ENDNOTES

¹ See, for example, Bosquet, B. 2000. Environmental tax reform: does it work? A survey of empirical evidence. *Ecological Economics* 34(1) : 19-32.

² See, for example, Valsecchi C., ten Brink P., Bassi S., Withana S., Lewis M., Best A., Oosterhuis F., Dias Soares C., Rogers-Ganter H., Kaphengst T. 2009. [Environmentally Harmful Subsidies: Identification and Assessment](#), Final report for the European Commission's DG Environment.

³ See, for example, OECD. 2005. [Environmentally harmful subsidies. Challenges for reform](#).

⁴ See, for example Arnason, R. et al. 2009. [The sunken billions. The economic justification for fisheries reform](#). The World Bank, Washington, DC

⁵ Target 20 should also be mentioned (refer. CBD Art. 20 – Financial Resources): “By 2020, at the latest, the mobilization of financial resources... should increase substantially from the current levels.”

⁶ Sainteny, G. 2012. [Public incentives that harm biodiversity. Centre d'Analyse Stratégique](#). Summary, La Documentation Française, Paris.

⁷ CdP-12 (decision XII/3, para 21 and annexe I).

⁸ Target 14.6 of Objective 14 on the oceans.

⁹ Whether directly as UN member States and Parties to the CBD such as Fiji or Vanuatu, or indirectly through the metropolitan country they are associated with such as New Caledonia and French Polynesia.

¹⁰ See, for example, [the IEEP factsheets](#) of 40 case studies across the European Union.

¹² Secretariat of the Convention on Biological Diversity. 2011. [Incentive measures for the conservation and sustainable use of biological diversity. Case studies and lessons learned](#). CBD Technical Series 56, Montreal.