

Proposal 3: Taxation based system: footprint/ commodity taxation

Given David's comments, perhaps the description of the tax is too vague and therefore raises many questions. Can we insert options of how this might be implemented in practice and then raise issues that would need to be addressed under each option? I have tried to start this below.

Short description

Two options for mobilising resources for biodiversity conservation and sustainable use were discussed. Under option 1, developed(?) countries with a high biodiversity footprint (e.g. through use of high-biodiversity impact commodities like palm oil or soy, tropical timber) are taxed, with revenues flowing into a new biodiversity fund. The approach provides both an incentive to countries to minimise their unsustainable footprint (e.g. through the use of certified commodities) as well as an incentive to invest in conservation and sustainable use. Conservation thus competes with conversion on a better footing, providing incentives for intensification of agricultural production rather than conversion. The aim would therefore be to approximate, to the extent possible, a pigouvian tax on biodiversity. [As a practical matter, however, fine-tuning a "green footprint" tax would be a difficult thing to merge with existing VAT or income tax systems. It might be more reasonable to suppose that the tax would be based on income or consumption, with adjustments made for credits for beneficial activities or surcharges on harmful ones.]

Under option 2, the tax would be implemented in developed countries, based on a general income or (VAT) consumption. Thus this tax would be a general way of raising revenues. Possible adjustments could be made for credits for beneficial activities or surcharges on harmful ones. [David, would it help to briefly clarify what you mean via credits, and how the adjustment might work in practice?]

I. Demand creation

Developed country governments take on commitments to reduce their unsustainable biodiversity footprint, through taxation with revenues flowing into a national or international fund. The fund would finance conservation of biodiversity and intact ecosystems, restoration of degraded ecosystems as well as sustainable production projects [as in the long-running controversy regarding the effectiveness, or even desirability, of ICDPs, deciding how much a sustainable development projects is "worth" in conservation credits may be a very difficult challenge]. Calculation of each countries' footprint could be done along the same lines as the CO-2 emissions calculation in the recent Mexican proposal under UNFCCC (a combination of indicators such as biodiversity footprint (e.g. and capability to pay e.g. per capita income, GDP; again, in practice, this probably means marginal increases to existing tax bases)

Issues to be addressed:

- WTO implications and what might be feasible in practice
- Political palatability of mobilising financial resources and spending them abroad (some of these issues are coming up in climate change)

II. Supply

Payments from any fund should be done upon delivery: results (i.e. performance-based payments), that can be traded in the form of certificates. Suppliers may include local, regional and national governments, biodiversity banks or private landowners. Discussion in the group remained on how to identify and establish priorities. Agreement on the need to avoid high administrative and transaction costs. Models include twinning (national funds focussing on specific ecosystems or countries) or an international scoring system (e.g. on the basis of current GEF system), in which CBD might play a more prominent role. There was a suggestion to focus on areas where pressure from landtake/ conversion is high, in order to steer away from a race to the bottom where conservation focuses on areas that are currently not under threat. (i.e. to ensure additionality – this is key)

III. Matching supply and demand

This could take a ‘market-based approach’ buying and selling certificates, or a global GEF-like mechanism. Pricing would occur according to the dynamics of supply and demand.

IV. Monitoring and enforcement

Monitoring of the supply side is taken care of by the certification process. Certificates are issued only after monitoring results have been independently verified. Monitoring of the demand side must be done by the national government. National performance will be reported and registered with the GDM. Enforcement would be a challenge (compare UN-contributions).

Advantages

- Clear incentive to adapt unsustainable consumption; direct link between source of funds for GDM with pressure on biodiversity. [Again, while such a link is clearly desirable, I think it could prove very difficult in practice to tie tax receipts to truly degrading activities. Rather than spend a lot of time and resources trying to fine-tune the tax mechanism, I think a “piggy back” on existing taxes would be much easier administratively. Yes but then you provide no incentive to reduce the biodiversity-harmful activities. Clearly a first-best pigovian tax on biodiversity will be challenging/impossible to put in place, but is there a way to approximate this?]
- The demand is consumption based:
 - Consumption of high-footprint commodities is one of primary drivers of biodiversity loss, so there is a direct link between wealthy countries’ behaviour and biodiversity loss in developing countries.
 - Consumption will continue, so this is a continuous financing mechanism, not once-off like development offsets.

[I'm concerned about this analysis; Katia and I were having a very interesting conversation about this, and I'd like to try to summarize it (Katia, please correct me if I misstate the points). Let me summarize what I think the mechanism we're describing here is intended to accomplish: 1) wealthy nations collect taxes based on their consumption of biodiversity-depleting commodities (tropical timber, palm oil, etc.); then 2) the proceeds of those taxes are used to compensate land-owners for conserving their land [acquire land, or restrict development of land, in poor countries around the world]. This means that biodiversity loss is essentially taxed twice. [only if the tax is optimal or pigovian. If it is optimal then external costs have been internalized and there is no need to compensate the other land-owners because the correct market signal is already in place. But the proposal above is a long way away from a Pigouvian tax, is it not?]. There are also many other distortions in the market. First, there is a tax on products. Second, if the proceeds of that tax are used to subsidize conservation, forgoing that subsidy by continuing to produce biodiversity-depleting products is a second, *de facto* "tax" on depletion. This goes back to my main issue with imposing the tax explicitly on biodiversity-degrading activities. I'm afraid it may not be efficient, equitable, or legal. Here are my reasons

Inefficient: Generally, one wants to tax the source of the negative externality, i. e., biodiversity depletion per se. A tax on biodiversity-depleting imports is only partially a tax on biodiversity depletion, but also partially a tax on labor and capital employed in the exporting nations.

Inequitable: Depending on supply and demand elasticities, the burden of a tax on biodiversity-depleting imports will be split between exporters and consumers in the importing country. So it is worth considering what these elasticities are for the goods in question. Obviously, it's inequitable to place the burden of biodiversity conservation on the very poor countries who are depleting biodiversity in order to scrape by. Yes, but at the same time, the point is to have less biodiversity loss. Tax some bad activity and provide subsidies to other landowners in developing countries. A tax-based transfer from rich to poor would be more equitable. But again, not addressing the drivers of biodiversity loss at all. There is no incentive for consumers in e.g. the Netherlands to change consumption behaviour towards more biodiversity-friendly products.

Illegal: This seems a classic example of a "process restriction" of the type that has, by and large, been found illegal under WTO rules. I think this is a key issue. It would be worthwhile to have a WTO expert examine what may and may not be possible.

Potential problems

- Need for international coordination of taxing
- Tax burden (although recognition that any tax should be accompanied by removal of perverse subsidies, thus creating room for manoeuvre)

- Method to calculate footprint