

# The Political Economy of Biodiversity Policy Reform

POLICY HIGHLIGHTS



The background image is a high-angle, wide shot of a lush green valley. In the foreground, there are rolling green fields with scattered trees and small farm buildings. A small white church with a red roof and a steeple is visible on the left. In the middle ground, there are more fields, trees, and a small cluster of houses. In the background, a large blue lake stretches across the horizon, with mountains visible in the distance under a clear sky.

# The Political Economy of Biodiversity Policy Reform

**The need for more widespread and ambitious policy instruments for biodiversity conservation and sustainable use is widely acknowledged. Progress, however, has not been as rapid and effective as needed and global biodiversity trends continue to decline. This loss of biodiversity and associated ecosystems results in costly impacts on human health, well-being and economic growth.**

**As countries strive to implement more ambitious and cost-effective biodiversity-related policies, policy makers often encounter a number of barriers. These may include concerns about potential competitiveness impacts or distributional issues, the influence of vested interests or the political and social acceptability of reform. Drawing insights from a political economy perspective on biodiversity related policy reform – how decisions are made, in whose interests and how reform is promoted or obstructed and why – can shed light on how to overcome these barriers.**



The report ***The Political Economy of Biodiversity Policy Reform*** (OECD, 2017) examines lessons learned from the political economy of biodiversity related reforms. It draws on the literature on salient issues that arise in the context of policy reform and four new case studies: the French tax on pesticides; agricultural subsidy reform in Switzerland; European Union payments to Mauritania and Guinea Bissau to finance marine protected areas management via conservation trust funds; and individually transferable quotas for fisheries in Iceland. Each case study focusses on the drivers for reform, the types of obstacles encountered, key features of the policy reform, and the lessons learned from the reform experience.





## 1

# Potential barriers to environmental policy reform

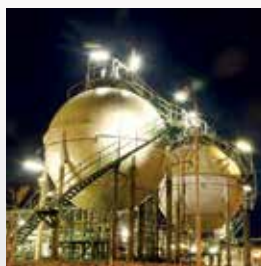
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Some of the issues that arise in the political economy of broader environmental policy are also relevant for gaining insights on biodiversity related reforms. These include:

**COMPETITIVENESS IMPACTS:** potentially adverse impacts on competitiveness can manifest in two ways: (1) increasing environmental stringency could cause firms to incur higher production costs, which drives up prices, reduces sales and profit, and can therefore result in at least some decrease in employment and economic activity (Morgernstern et al., 2002); or (2) more stringent regulations may cause a competitive disadvantage compared to jurisdictions with lower standards, thus creating an incentive for businesses to relocate -- the so-called “pollution haven” effect (Esty and Geradin, 1998). In general, there is scant empirical evidence of environmental regulation causing major economic or job losses, but the impact will depend on the type of sector and firm characteristics.

**DISTRIBUTIONAL IMPACTS:** the expected distribution of costs and benefits of a policy influences its political feasibility. Concerns about regressive impacts (where low-income households are impacted by price rises to a greater extent than higher income households) have been a barrier to environmental policy reform. In cases where the distributional impacts are likely to be a concern, appropriate policy packages can help to ease the transition. For example, recycling the revenue raised from taxes or subsidy removal can offset such effects (OECD, 2006).





**INFLUENCE OF VESTED INTERESTS:** the influence of vested interests and rent-seeking behaviour has also been cited as a hindrance to environmental reform (Robin et al., 2003). Heavy lobbying by affected industries can thwart policy change. In some cases, the inflated rents reaped by affected firms as a result of their lobbying efforts derive not only from capture of subsidies or grants, but also from lowered taxes, less stringent investment regulations and the exclusion of the costs and benefits of ecosystem services and biodiversity from policy assessments. The resources at the disposal of rent-seeking parties may provide them with an advantage relative to the broader range of stakeholders affected by environmental damages, who may not have the time or money to organise as effectively.

**POLITICAL AND SOCIAL ACCEPTABILITY OF REFORM:** increasing the stringency of environmental regulations or eliminating harmful subsidies is a process subject to complex political considerations that increase the difficulty of obtaining support. Societal conditions may influence the behaviour of elected officials, who feel the need to provide positive economic news (OECD, 2005). Thus, maintaining the status quo becomes politically attractive. Political acceptance is also dependent on (among other concerns) the perceived effectiveness of the policy, the degree of fairness, and the degree of awareness of the problem being addressed.





## Case study 1: The evolution of the tax on pesticides and the pesticide savings certificates in France

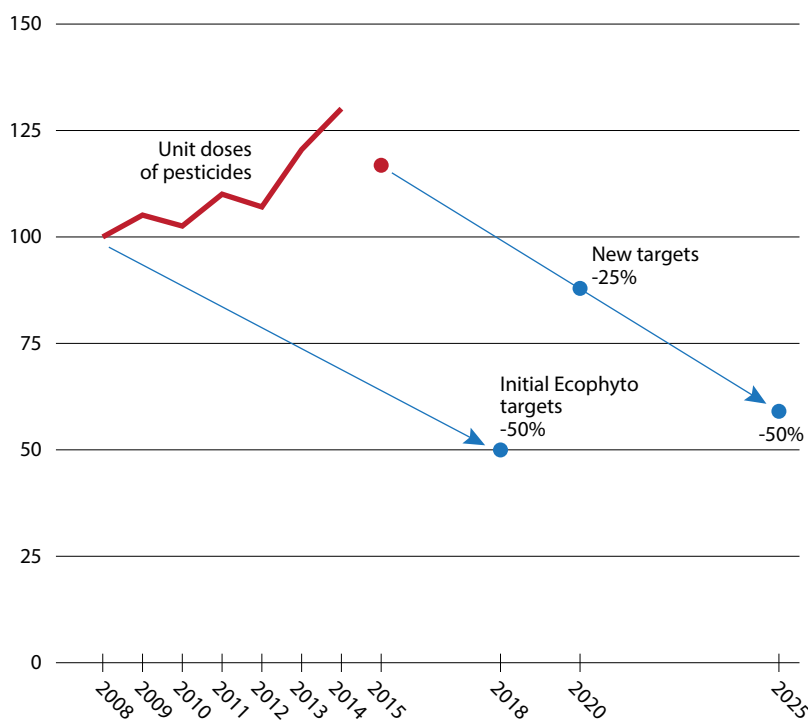
As the leading agricultural producer in the European Union, accounting for 16% of the EU's agricultural surface, France is the second largest user of pesticides in the EU in terms of total volume (after Spain) (Marcus and Simon, 2015) and was the eighth largest consumer worldwide in 2010 (OECD, 2016). The use of pesticides supports agricultural production but also contributes to environmental degradation and risks to human health.

The first tax on pesticides was introduced in France in 1999, later replaced by a tax on diffuse pollution in 2008, which applies to pesticide sales. The tax rate has increased moderately over the years and the tax base has expanded to cover a greater number of harmful substances. However, competitiveness concerns limited more significant increases in the tax rate. The resulting low level of the tax has not provided a sufficiently strong incentive to reduce use, and the ambitious target to reduce pesticide use by 50% if possible, has not been

reached. Indeed, pesticide use has continued to rise (Figure 1). The recent adoption of a novel instrument, pesticide savings certificates, represents a compromise with the agricultural sector, which opposed stricter regulation or a further increase in the tax rate on pesticides. This case study highlights the importance of addressing potential competitiveness impacts, the benefits of broad stakeholder engagement and how a solid evidence base to support the reform can help the government to stand firm against lobbying pressure.

Figure 1. **Evolution of pesticide use compared to objectives of the Ecophyto Plans I and II**

2008 = 100



Source: OECD (2016), *OECD Environmental Performance Reviews: France 2016*, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264252714-en>. OECD based on data from MAAF (2016), *Tendances du recours aux produits phytopharmaceutiques de 2009 à 2014*.

Note: Changes in agricultural "number of unit doses" (Nodu) compared to Ecophyto plan. 2015 is an estimate based on 2012-14 average.

**157**  
EUR BILLION

In the EU, the annual health and economic costs related to endocrine-disrupting chemicals is estimated at EUR 157 billion, with pesticides accounting for the largest share of these costs at around EUR 120 billion (Trasande et al., 2015).



## Case study 2: **Agricultural subsidy reform in Switzerland**



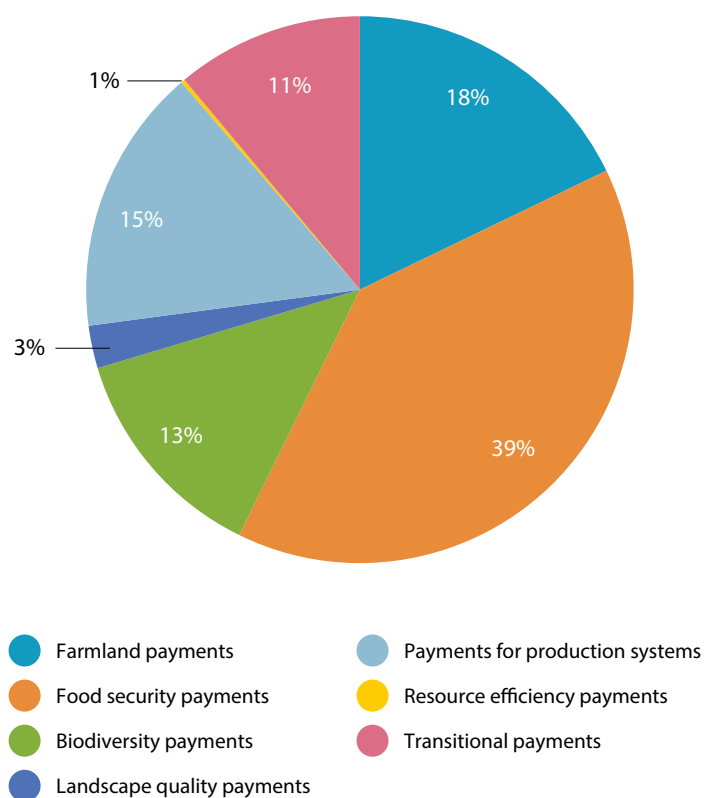
From an economic perspective, agriculture plays a relatively minor and declining role in Switzerland, yet it is nevertheless the largest user of land in the country and plays a crucial role for biodiversity. Since the early 1990s, Switzerland has undertaken a series of major agricultural policy reforms, reducing market intervention and introducing the system of direct payments, which included both general direct payments and ecological payments.

However, by 2009, many of the ecological targets set by the Federal Council had not been achieved and more fundamental questions were being raised about the effectiveness and efficiency of the direct payment system. This led to the development of the system to better target policy objectives, including for biodiversity. The reforms were adopted in the Agricultural Policy 2014-17. As a result, in 2014, biodiversity payments amounted to about 13% of total direct payments (just over CHF 364 million) (Figure 2). In addition, CHF 40.4 million was paid

for organic production and close to CHF 32 million for extensive production.

This case study demonstrates how an alliance of market-oriented and ecological interests can help to spur reform. It also illustrates how devising politically and socially acceptable compromises, including the use of transition payments (which amounted to around CHF 308 million in 2014) to offset negative distributional impacts, can help overcome barriers to reform.

Figure 2. **Distribution of direct payments by category, 2014**



**100**  
CHF MILLION

*In Switzerland, the external costs of pesticides have been estimated at CHF 100 million per year (Zandonella et al., 2014).*



Source: Based on data from Agrarbericht, 2016 "Système des paiements directs" [Direct payments system], [www.agrarbericht.ch/fr/politique/paiements-directs/systeme-des-paiements-directs](http://www.agrarbericht.ch/fr/politique/paiements-directs/systeme-des-paiements-directs) (accessed 19 September 2016).

## Case study 3: EU payments to Mauritania and Guinea Bissau for marine protected areas under the fisheries partnership agreements

The coast of West Africa has been identified as a marine eco-region of global importance. The region's fisheries are an important contributor to GDP, providing livelihoods for fishers and processors, as well as a source of hard currency (from exports of fishery products). Fisheries also boost government revenues through fisheries partnership agreements and taxes.

The pressure on West African fish stocks increased six-fold between the 1960s and the 1990s, mainly due to over-fishing. To help conserve marine biodiversity, marine protected areas (MPAs) are prevalent in the region. In Mauritania and Guinea Bissau, conservation trust funds were created to provide sustainable financing to MPAs with the objective of channelling funds, including from the EU through Fisheries Partnership Agreements. These arrangements can be considered as international payments for ecosystem services. The financing scheme implemented in Mauritania to fund the Banc d'Arguin National Park (PNBA) via the conservation trust fund, BACoMaB, is illustrated in Figure 3.

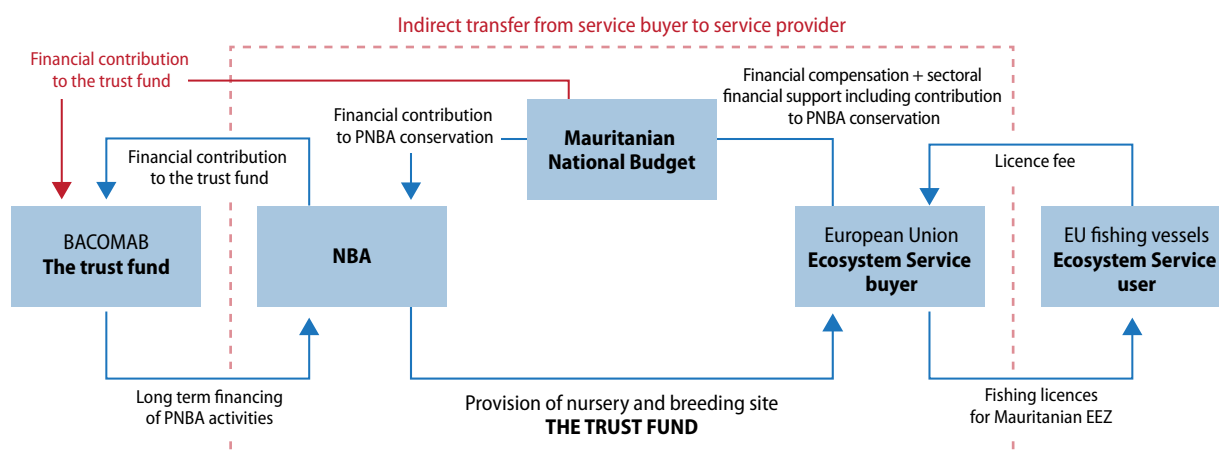
This case study demonstrates how concerted lobbying efforts by environmental NGOs established a shared understanding of the benefits that marine conservation could bring to the fisheries sector. It also highlights how wavering political support as a result of changing leadership can threaten the long-term stability of financing for conservation and the importance of a secure legal basis for agreements to avoid back-sliding.

**59**  
EUR MILLION

The 2006 Fisheries Partnership Agreement with Mauritania was the EU's single largest agreement providing EUR 86 million a year directly from the EU (EC, 2007). The agreement has recently been renewed, committing EUR 59 million per year to the partnership, with EUR 4 million supporting the fishing communities, including environmental sustainability, job creation and tackling illegal and unregulated fishing.



Figure 3. **Funding marine protected areas in Mauritania from Fisheries Partnership Agreements through a conservation trust fund**



Source: Adapted from Binet et al., 2013. Note: "EEZ" = exclusive economic zone.



## Case study 4: **Individually transferrable quota system and resource rent tax in Icelandic fisheries**



Although the relative importance of the fishing industry in Iceland's economy has declined, it still is one of the mainstays of the economy, accounting for 5% of GDP in 2015. Around 57% of total merchandise export value came from seafood exports in 2015.

The introduction in the 1980s of the individually transferrable quota (ITQ) management system in the Icelandic fisheries was driven by a looming crisis. It became apparent that the status quo would most likely lead to fisheries collapse and major economic hardships for the country as a whole. With the Fisheries Act in 1990, the ITQ system became comprehensive and thus, the cornerstone of the fisheries management system. Evidence suggests that the Icelandic ITQ system has been very successful in increasing efficiency in the fisheries (Figure 4) and created the correct incentives for fishers when it comes to safeguarding and rebuilding fish stocks.

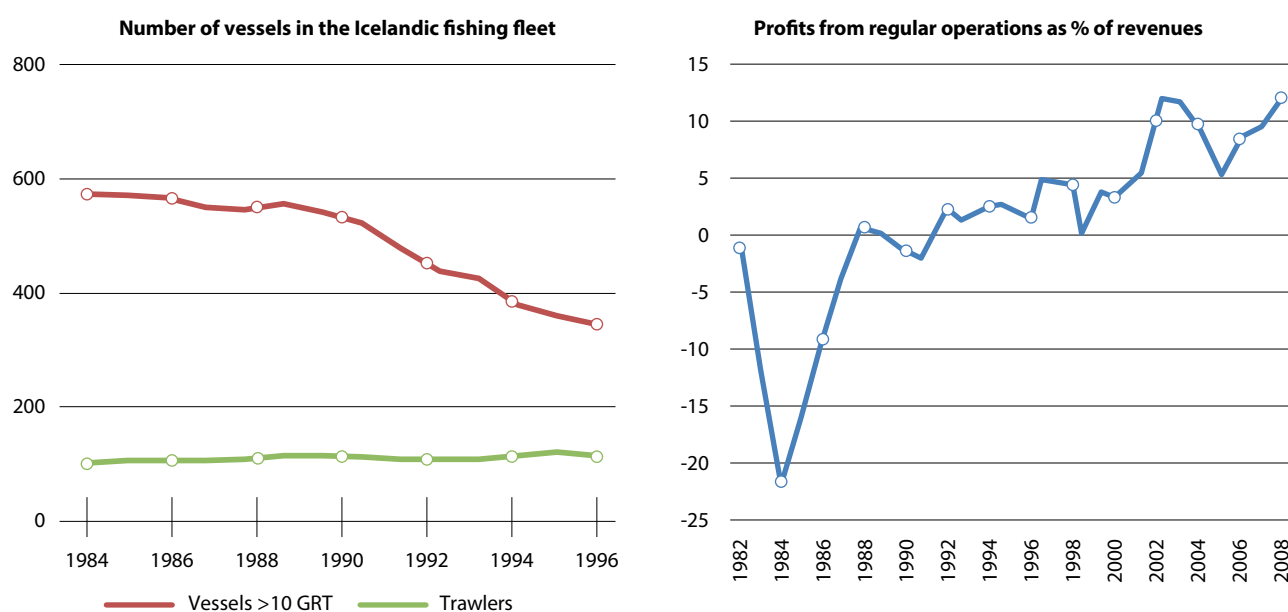
This case study shows how a crisis threatening an economically vital industry can provide the political drive to establish a sustainable resource management system. It also illustrates that despite the overall economic gains of the reform, there were still winners and losers, which spurred subsequent reforms to the system.

**25%**  
OF TOTAL EXPORTS

*The Icelandic marine ecosystem has supported a robust fishing industry, accounting for about 7% of GDP in 2012, with marine products representing more than 25% of total exports of goods and services (measured in value) (OECD, 2014).*



Figure 4. **Significant consolidation of the Icelandic fishing fleet led to higher profitability**



Source: Based on data from Statistic Iceland (2016), personal correspondence with G. Thordardottir. Note: GRT= "gross registered tonnes".

# 3 Insights on overcoming barriers to biodiversity-relevant policy reform



## Lesson 1:

### Seize opportunities to advance biodiversity related reforms: from crisis to public concern

The case studies point to the need to be ready to act quickly when presented with windows of opportunity that may be outside the influence of domestic policy-makers and unrelated to environmental concerns.

- The major reform of **Icelandic** fishery policy was driven by an urgent need to prevent the imminent collapse of an economically important industry. While addressing threats to biodiversity was not an explicit aim of the reform, safeguarding biodiversity was a positive by-product of the reform, which put the fisheries sector on a more sustainable long-term footing.
- In **Switzerland**, the Parliamentary elections in 2011 saw the Green Liberal Party successfully ride the wave of anti-nuclear sentiment in the aftermath of the environmental disaster at Japan's Fukushima plant in March of that year, making the composition of the Parliament particularly conducive to approving the reform. Also, the reform was developed under the leadership of the then Director of the Federal Office of Agriculture who is credited with being an important influence on driving reform.
- For **France**, growing public concern about the potential risks of pesticide use to human health and the environment has become an increasingly important reform driver, opening opportunities for stronger policy action. Public opinion, as expressed through market choices (via growing demand for organic products and willingness to pay a premium for such products) is increasingly prominent. Heightened media attention, campaigns by NGOs, and swelling public pressure have given momentum to further action on specific types of pesticides.







## Lesson 2:

### Build alliances between economic and environmental interests

Several of the case studies illustrate how economic and environmental interests can be aligned to build support for biodiversity related reform. Building such alliances can advance reforms beneficial for biodiversity in instances where a more narrow focus on only “green” issues might fail. This can include forming coalitions, either explicitly or behind-the-scenes, with other interest groups who may share the same desired outcomes, though their motivations may not at all be driven by concerns for biodiversity or the environment more broadly.

- In **Switzerland**, arguably, the main impetus for the change in agricultural policy was support for market-oriented reforms to encourage free trade and bring the direct payments system more closely in alignment with the World Trade Organisation’s “Green Box” criteria. Building a coalition among market-oriented interests promoting trade liberalisation and environmental interests were particularly crucial for advancing the reform. Active lobbying by environmental NGOs using both economic and environmental arguments helped to win support in Parliament.
- In the case of **Mauritania** and **Guinea Bissau**, concerted lobbying efforts by environmental NGOs to clearly link the economic benefits to fisheries of well-functioning ecosystem services helped to gain financing for conservation trust funds for marine protected areas (MPAs). A well-established and credible NGO acted as a “broker”, playing a key role in establishing a shared understanding of the benefits that MPAs bring to the fishing sector and the benefits trust funds bring to marine conservation. In Guinea Bissau, environmental NGOs also played an important role by laying the ground work for broader institutional change concerning conservation.





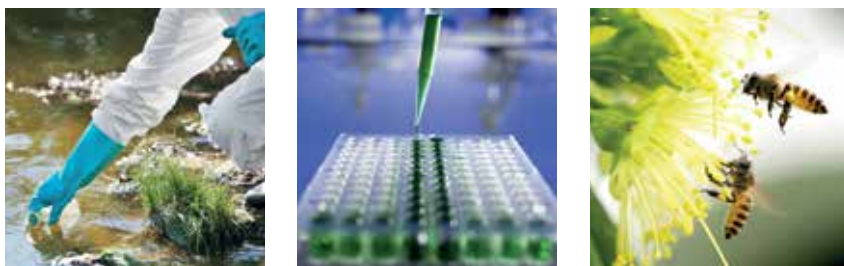
### Lesson 3:

#### Devise targeted measures to address potential impacts on competitiveness and income distribution

The case studies illustrate the importance of minimising costs of reform on targeted sectors and stakeholders as a means to overcome potential opposition to reform. Recycling the revenue from environmentally related taxes or putting into place transitional measures can help to minimise the cost to affected sectors. Other economic instruments, such as resource rent taxes, can be used to address distributional concerns to more widely and efficiently share the benefits of harvesting common property resources.

- In the case of **France**, as Europe's leading agricultural producer, limiting the potential costs to the agricultural sector of policies to reduce pesticide use has been a prerequisite to advancing reform. Recycling the revenue from the tax on diffuse pollution to mainly benefit farmers helped to gain the political acceptability of the tax and of subsequent increases in the tax rate and the expansion of the tax-base. This revenue recycling mechanism was also a critical factor that supported maintaining the ambitious reduction targets.
- In **Iceland**, the fisheries management reform has been both a clear economic success and a way of safeguarding the sustainability of the fish stocks. However, discontent arose in the years following the reform due to the initial free allocation of the quotas to existing fishers based on their recent catch levels at the time. This is considered by some to have been an unjust way of disbursing rights to harvest a commonly owned resource. The resource rent tax introduced in 2012 sought to remedy these distributional issues to some extent.
- For **Switzerland**, advancing reforms to better target agricultural support required politically and socially acceptable compromises in the reform package. The reform balanced interests by slightly increasing the overall level of budgetary support for agriculture, while re-distributing that support across the new categories of payments, including biodiversity payments. In addition, transition payments were included in the reform package to minimise negative impacts on farmers





#### Lesson 4:

### Build a robust evidence base to support reform and provide resistance to pressure from vested interests

A robust scientific and economic evidence base is an essential tool in the arsenal of governments seeking to advance policy reforms. Such an evidence base can help to clearly identify the benefits and beneficiaries of reform, make the case for change and provide means to resist pressure from vested interests.

- In **Switzerland**, environmental NGOs played a key role as part of their lobbying efforts to disseminate information about expected benefits of reforms to specialised agricultural groups, such as alpine farmers, which benefitted from more payments for extensive production and biodiversity payments under the new system. This helped to encouraged their engagement to support the reform process.
- In **France**, a robust evidence base supported by scientific research has been critical for the government to stand firm against lobbying pressure in the context of the recent introduction of the pesticides savings certificates.





### Lesson 5:

#### Encourage stakeholder engagement to build broad and durable support for reform

The case studies reveal distinct approaches to stakeholder engagement, with differing outcomes. For France and Switzerland, where stakeholder engagement has been very broad and intensive, reforms have been incremental, proceeding at a slow pace, but generally in a positive direction. In contrast, limited stakeholder engagement likely contributed to the speedy adoption of more drastic reforms to establish the comprehensive ITQ system in Iceland.

- In **France**, broad stakeholder engagement inspired by the “Grenelle model” has been important for overcoming resistance of vested interest. Greater representativeness of stakeholders has had a positive influence on policy reforms in this case, as it has encouraged the engagement of a number of smaller, innovative pioneers who are helping to advance the agro-ecology agenda. Although this time-consuming and resource-intensive consultation process means that progress has been gradual and modest, it is generally moving in a positive direction.
- For **Switzerland**, a political system with elements of direct democracy means that reforms require extensive consultations with many stakeholders. As a result, agreeing and implementing policy reforms is a lengthy, but well-structured process (OECD, 2015). In the case of the reform of the direct payments system, broad stakeholder consultation helped to involve not only major lobbying groups including environmental NGOs, economics institutions, and the Farmers Union, but also smaller agricultural groups, including organic farmers associations and farmers located in alpine areas, who were well-positioned to benefit from the reform.
- In **Iceland**, the major reform to establish the ITQ system was led mainly by government authorities, including scientists. Such sweeping reforms would have been difficult to implement as quickly if the process had included the participation of all the different stakeholders. At the same time, limited stakeholder engagement at the outset may have led to a greater need for piecemeal amendments to the system over time to respond to specific stakeholder demands.







## Lesson 6:

### Consolidate gains to ensure that reforms are sustained over time

The cases reviewed attest to the importance of ensuring that reforms are sustained over time. Vested interests, for example, do not simply disintegrate once a policy reform has been enacted. As the influence of political parties changes as a result of election cycles, and new coalitions emerge, political priorities can shift too. Similarly, when there is high turn-over of leadership and staff in key institutions, a void may be created when champions or experts move on, resulting in existing policies becoming vulnerable to back-tracking. Continuous training of staff, awareness raising, provision of evidence-based results, ex-post assessments of reforms, and active lobbying can help to maintain successful reforms over time. Furthermore, agreements with a firm legal basis will be more enduring than those based on an informal understanding, which can be contested and altered once leadership changes.

- In the case of **Mauritania**, wavering political support threatens the long-term stability of the conservation trust fund. Early momentum to establish financing arrangements for conservation trust funds has dissipated in the context of competition for scarce financial resources and shifting government priorities. The transitory nature of the arrangement, which is renegotiated on a regular basis, could also jeopardise long term commitments. Several options exist to address this issue, including ensuring the trust funds rapidly demonstrate their potential as actual grant-makers.
- In the case of **Switzerland**, not long after the agricultural reform of 2014-17 was voted by Parliament, the Farmers Union launched a call for a popular initiative proposing a change to Article 104 of the Federal Constitution, which sets out the multifunctional purpose of agriculture in Switzerland. The popular initiative seeks to place greater emphasis on goal of food security, which is seen as a step backwards for those who supported the recent reform. Further, Swiss agricultural subsidies remain relatively high compared to other OECD countries (OECD, 2015) and the direct payments system still consists of a number of subsidies that have unclear, or possibly contradictory, impacts on environmental objectives. To continue to pursue biodiversity objectives and put Swiss agriculture on a more sustainable footing, the system will need to continue to evolve with better targeted direct payments.



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**For further reading on the political economy of biodiversity-related reform, see the following report on which this Policy Highlights is based:**

OECD (2017), *The Political Economy of Biodiversity Policy Reform*, OECD Publishing, Paris, <http://dx.doi.org/10.1787/9789264269545-en>.

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