

Submission by the Government of Australia: (Decision VII/18 of the Seventh Conference of the Parties: Incentive Measures)

This submission by the Government of Australia, responds to Secretariat Notifications number 2004-038 and 2004-076 ref: Decision VII/18).

The case studies in this paper are provided in response to the invitation to Parties and governments to submit information on the removal or mitigation of perverse incentives, as requested in the Convention on Biological Diversity (CBD) Decision VII/18 of the Seventh Conference of the Parties: Incentive measures.¹

The first case study responds to the request for information on the removal or mitigation of policies or practices that encourage resource uses leading to the degradation and loss of biodiversity.²

The second case study responds to the request for information on non-monetary positive incentive measures.³ This particular case study involves financial payments and, in this sense, is not a non-monetary incentive measure. However, the subject of the case study fits with the positive incentive instruments identified in paragraph 36 of the Annex to the decision, and reflects growing interest in Australia in the use of auction or tender systems to stimulate biodiversity protection actions by private landholders.

While the review in the first case study will consider forms of support for private, rural landholders it should be noted that, in general, levels of government support for agriculture in Australia are low. Further, where support is provided to the agriculture sector, it is not generally provided as distortionary input or output-based production subsidies. In the second case study, the competitive conditions associated with the tender mechanisms help ensure that no unwarranted economic benefit is conferred on one production sector to the detriment of competing producers, either in Australia or overseas.

Australia notes that any policies, practices or incentives that are discriminatory (eg. favour domestic over foreign parties) might negatively affect market access or reduce economic welfare, which would appear to be inconsistent with obligations under World Trade Organisation (WTO) rules.⁴ Australia has consistently maintained that where environmental measures are contemplated by a WTO Member, (such as those discussed in the two case studies), they can and must be implemented in a way that is consistent with that Member's WTO rights and obligations.

Case Study 1: Unintended consequences of policy settings for water quality

The Australian Government is undertaking a review of agricultural policy settings as part of a program of actions to address the impact of declining water quality on the health of the Great Barrier Reef.

Over the last 150 years, extensive land use change in the catchment areas adjacent to the Reef has led to an increase in the sediment and nutrient pollutant loads of rivers flowing into the waters of the Reef. The Australian and Queensland (State)

¹ SCBD/SEL/ML/GD/43069 refers.

² Paragraph 6 of Decision VII/18 refers.

³ Paragraph 8 of Decision VII/18 refers

⁴ Article III.4 of GATT 1994 and Article XX of GATT 1994.

Governments' Reef Water Quality Protection Plan⁵ aims to address diffuse source pollution from agricultural land uses, including grazing and cropping, in catchments adjacent to the Reef.

A number of factors contributed to the impetus for the review. The review is being driven by, and focused on, a key environmental issue: the failing health of the Reef. The Great Barrier Reef is World Heritage listed and has outstanding natural, social and economic values. In addition, the review is being conducted as part of a broader package of instruments, including incentives, to implement management practices that lead to improved water quality in the lagoon. As such, many of the landholders benefiting from the policies under review are likely to have the opportunity to benefit from other actions under the Plan.

The review will undertake a systematic evaluation of existing policies and programs and recommend, where appropriate, alternative means of achieving the objectives of these policies and programs that reduce impacts on the environment. The recommendations of the review will be based upon:

- an assessment of the magnitude of negative impact on water quality;
- the ease of policy change; and
- the socio-economic impacts of the change.

Past studies and research represent a large body of generalised information on the potential for government policies and programs to have unintended consequences for the Reef. Therefore the terms of reference for this review emphasise a series of specific tasks and evaluation criteria that will be used to build a case for any reforms and allow a judgement to be made on their relative priority.

The review will also consider ways to incorporate an assessment of potential impacts on water quality in the development of future policies and program.

Case 2: Biodiversity stewardship payments

There is growing interest in Australia in the use of voluntary payments programs as a tool to achieve environmental objectives. A high profile example of this type of incentive mechanism is the BushTender trial, conducted by the Victorian State Government. In this program, bids were sought from landholders for entering into contracts to undertake a range of vegetation management actions. The bids were evaluated using a 'biodiversity benefits index' and accepted on the basis of best value for money.

The attractiveness of voluntary payments as an environmental policy tool is based upon a number of features. Voluntary payments programs provide private landholders with the financial resources to undertake conservation activity, and can thus be effective in motivating landholders when the private benefits from undertaking conservation activity are small or negative. Contracts may also be varied to match different environmental and economic contexts, increasing the economic efficiency of the incentive instrument in comparison to uniform, broadly applied regulation. Voluntary payments also preserve landholder autonomy and, as such, are likely to be perceived as fair. Policy approaches that are considered unfair or unreasonable by those directly affected would be expected to result in higher enforcement costs.

⁵ See http://www.gbrmpa.gov.au/corp_site/key_issues/water_quality/rwqpp.pdf.

The combination of these features suggests biodiversity stewardship payments may be particularly suited to managing threats to biodiversity that require active and ongoing monitoring and management effort from landholders, particularly in relation to outcomes that are difficult and costly to monitor. Such circumstances could arise in the management of environmental weeds, the restoration and management of habitat for threatened species, and the implementation of environmentally beneficial burning and grazing regimes.

Since the BushTender trial, a number of other tender or auction-style programs have been developed at a regional level around the country. In addition, the Australian Government recently announced its “Maintaining Biodiversity Hotspots” initiative, which includes a substantial biodiversity stewardship payments component.⁶ The initiative represents a step up in scale the use of biodiversity stewardship payments in Australia. The national initiative is closely modelled on BushTender, with payments being made to private landholders for agreeing to undertake biodiversity conservation activities.⁷

However, voluntary payments represent a drain on public funding. Further, the cost-effectiveness of voluntary payments as an environmental policy tool may be undermined to the extent that a market is created for services that were previously provided in the absence of government intervention. Market power by the suppliers of environmental services can also undermine the overall cost-effectiveness of such schemes.

In light of these considerations, the Australian Government is developing principles to guide the design and implementation of biodiversity stewardship programs and to ensure the efficiency and cost-effectiveness of public funding. These principles include:-

- Allocating biodiversity stewardship payments on the basis of best value for money, assessed in terms of the contribution of the landholders’ actions towards achieving public good biodiversity objectives.
- Avoiding payments for action that are likely to be of net benefit to landholders, individually or as a group, or are that are otherwise part of landholders’ legal obligations.
- Allocating payments on a competitive basis, with all landholders who can contribute to the desired outcomes being eligible to participate in the program.

The first principle establishes the objectives of the funding under the program in terms of the broader benefits provided to society. The second acknowledges that activity supporting biodiversity conservation can, to variable degrees, also benefit, the landholders themselves and the communities they live in. Combined, these two principles reflect a cost-sharing approach that is consistent with the Australian Government’s current policies and programs for natural resource management. The last principle recognises that competition among potential suppliers underpins the cost-effectiveness of voluntary payments approaches.

⁶ See <http://www.deh.gov.au/biodiversity/hotspots/>.

⁷ More information on the BushTender trial can be found at <http://www.dse.vic.gov.au/dse/>.