

Recommendations to governments:  
How to implement Target 18 of the Global Biodiversity Framework

 BUSINESS  
FOR NATURE

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## About this paper

This paper provides recommendations for governments to implement Target 18 of the Global Biodiversity Framework (GBF) on reforming environmentally harmful subsidies (EHS) and other incentives.

### **Environmentally Harmful Subsidies vs Biodiversity Harmful Subsidies**

Environment and biodiversity are related concepts and are often used interchangeably, particularly with regards to subsidy reform. However, these terms refer to different aspects of the natural world. Generally, the environment refers to the surroundings or conditions in which living organisms exist and interact with one another, whereas biodiversity refers to the variety and variability of life forms on Earth, including the diversity of species, genetic diversity within species, and the diversity of ecosystems. Biodiversity harmful subsidies often do not include fossil fuel subsidies, even if these are a key driver of biodiversity loss.

This paper's scope and terminology therefore refer to environmentally harmful subsidies which de facto include both biodiversity harmful subsidies and fossil fuel subsidies to ensure wide-ranging and effective reform.



## About Business for Nature

Business for Nature is a global coalition of more than 85 influential partner organizations as well as forward-thinking companies. Together, we drive credible business action and policy ambition to achieve a nature-positive economy for all by 2030.

More than 1,400 businesses with revenues of more than \$7 trillion have signed our Call to Action '*Nature is Everyone's Business*' recognizing that healthy societies, resilient economies and thriving businesses rely on nature.





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In Target 18 of the Kunming-Montreal Global Biodiversity Framework (GBF), governments committed to reform Environmentally Harmful Subsidies (EHS). EHS unintentionally encourages unsustainable production, the depletion of natural resources, and the degradation of global ecosystems. Leading businesses support an effective reform as EHS distorts market prices, resource allocation and investment decisions, contributes to unfair competition, and creates reputational risks.

It is important to bear in mind that EHS:

- Come in different forms and sizes;
- Can be found across the whole economy;
- Their true scale and nature are unknown;
- Were often established with good intent but have unintended consequences;
- Are difficult to reform;
- Their reform can improve the lives of the most vulnerable;
- Fossil fuel subsidies exacerbate the harm from other sectors;
- Disclosure is a starting point for EHS reform but not be a barrier to action.

Few countries have started the subsidy reform process as it is a complex challenge, but one that presents a wealth of opportunities for governments, businesses and investors and which can lead to resilient economies. It can create a level economic playing field that encourages the rapid transformation of business models.

This report outlines the steps governments should take to reform harmful subsidies:

1. **Conduct a national assessment** to identify and assess the types and scale of EHS across all policy areas. This assessment could follow the four steps outlined by the OECD<sup>1</sup>: Scoping; screening, data gathering and impact assessment.
2. **Engage stakeholders** and raise awareness of the need for EHS reform, including by mapping stakeholders; understanding their interests; consulting throughout the reform process; developing clear messages and celebrating success.
3. **Co-develop and publish a robust EHS reform roadmap** that includes policies, goals and timelines, taking into account environmental, economic and social priorities. While developing an EHS reform roadmap, governments should:
  - Establish objectives
  - Prioritize by impact
  - Use expert advice
  - Co-design integrated solutions
  - Announce early and phase reform
  - Increase positive incentives
  - Disclose use and detail redistribution of savings
  - Take a nuanced approach
4. **Reform to ensure a just transition**, while retaining or strengthening original social purposes. Governments should undertake a full economic, social and environmental cost/benefit analysis of EHS and ensure the initial objective of the subsidy is kept and aim to retain or improve positive social benefits during reform.

<sup>1</sup> OECD, 2022 [OECD Environment Working Papers No. 206. Identifying and assessing subsidies and other incentives harmful to biodiversity: A comparative review of existing national-level assessments and insights for good practice](#), 2022, (Figure 4.1, pg 50)

5. **Enhance accountability and governance for EHS reform**, including monitoring and reporting progress to enable fair and transparent subsidy reform. This can include:
  - Development of an EHS reform tracker
  - Establishment of monitoring metrics and reporting progress
  - Establishment of cross-cutting government implementation mechanisms
  - Use of parliamentary scrutiny and audit power to ensure accountability
6. **Enhance international cooperation** and trade agreements to address cross-border impacts, coordinate efforts with other countries to eliminate harmful subsidies globally and collaborate to share best practice.

Addressing the challenge of environmentally harmful subsidies cannot be achieved by individual stakeholders alone. Leading businesses can support governments in implementing EHS reform. To do this they can and should:

- **Assess** the type and amount of EHS they receive in their direct operations and along supply chains and assess how they depend on it.
- **Disclose** the EHS they receive and how these impact or support the company's performance.
- **Commit** to EHS reform.
- **Transform** practices by championing EHS reform.



By adopting the Kunming-Montreal Global Biodiversity Framework (GBF), governments sent a strong message to the business and finance community that it must contribute to the global mission to halt and reverse nature loss by 2030. Updated National Biodiversity Strategies and Action Plans (NBSAPs) provide an opportunity for governments to fully recognize and integrate the role of the private sector in securing a nature-positive future.

Nature loss creates major risks to our economies<sup>2</sup>, but addressing the nature crisis also presents major opportunities<sup>3</sup>. Businesses are starting to understand their dependence on nature and to take action to transform their business models to contribute to achieving nature positive outcomes. But one key barrier to corporate action is the fact that our economic system continues to promote short-term profit over long-term value creation, and to incentivize and reward businesses that over-exploit nature instead of supporting a transition to sustainable practices and the creation of positive environmental impacts. Environmentally harmful subsidies (EHS) are a key driver of environmental damage, as they distort prices and skew resource allocation decisions towards destructive economic patterns built on the overexploitation of nature.<sup>4</sup>

We welcome Target 18 of the GBF, which commits governments to *“Identify by 2025, and eliminate, phase out or reform incentives, including subsidies, harmful for biodiversity, in a proportionate, just, fair, effective and equitable way, while substantially and progressively reducing them by at least \$500 billion per year by 2030, starting with the most harmful incentives, and scale up positive incentives for the conservation and sustainable use of biodiversity.”*

Target 18 builds on the UN CBD Aichi Target 3<sup>5</sup> from 2010 and complements other policy commitments that address environmentally harmful subsidies. Indeed, several other Conventions and agreements tackle this issue, including the Paris Agreement Article 2.1.c which commits to “making finance flows consistent with a pathway towards low GHG emissions and climate-resilient development”, the Sustainable Development Goal Targets 12.c (on fossil fuel subsidies) and 14.6 (on certain forms of fisheries subsidies), the World Trade Organization, the G7 commitment to phase out “inefficient” fossil fuel subsidies by 2025.<sup>6</sup>

However, the OECD notes that “despite international calls for incentives, including subsidies, harmful to biodiversity to be eliminated or reformed, only very few countries have embarked on the first step in this process, which is to undertake a national level study to identify and assess incentives, including subsidies, that are harmful to biodiversity.”<sup>7</sup>

Given this lack of progress, leveraging political will from major policy fora will be key to implementing EHS reform systematically and consistently.



<sup>2</sup> The World Economic Forum (WEF) notes that, “approximately \$44 trillion of economic value generation moderately or highly dependent on nature.”

<sup>3</sup> The World Economic Forum (WEF) notes that Nature-positive solutions will create \$10.1 trillion in business opportunity and millions of new jobs.

<sup>4</sup> Environmentally harmful subsidies are a key driver of the environmental damage as they distort prices and resource allocation decisions, leading to destructive economic patterns built on the overexploitation of nature

<sup>5</sup> <https://www.cbd.int/sp/targets/>

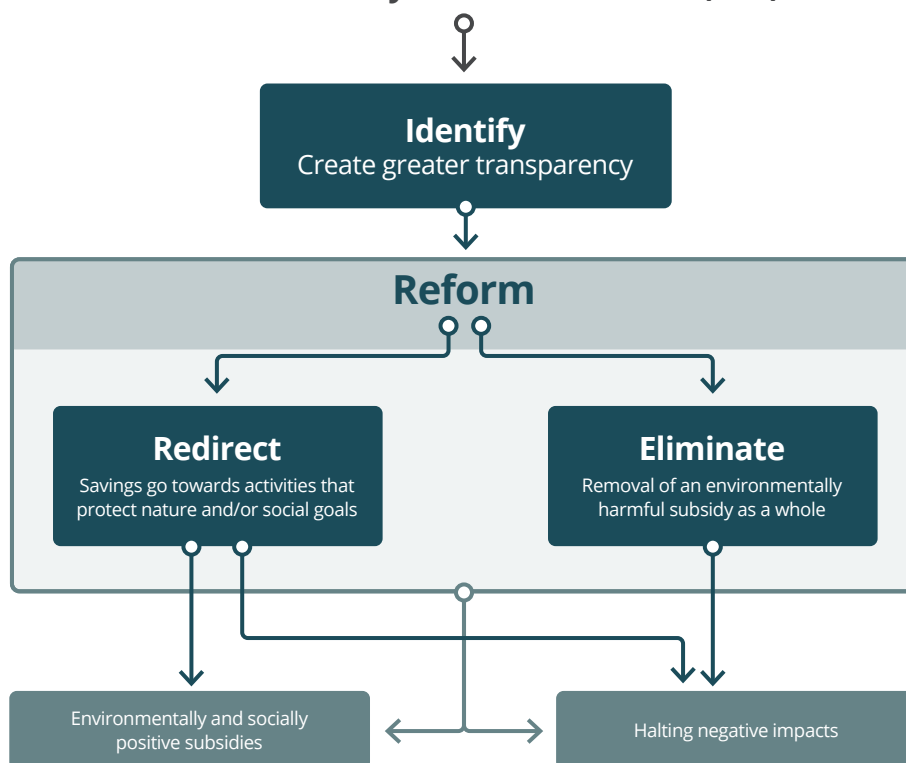
<sup>6</sup> See Target 18 Guidance from the Convention for Biological Diversity (CBD) for full list of subsidies commitment from political agreements beyond the GBF

<sup>7</sup> OECD, 2022 OECD Environment Working Papers No. 206, Identifying and assessing subsidies and other incentives harmful to biodiversity: A comparative review of existing national-level assessments and insights for good practice, 2022

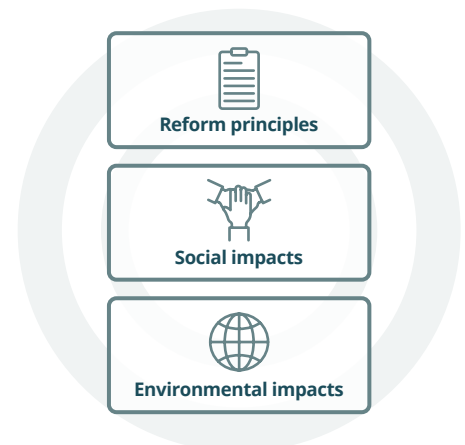
A radical and systemic approach to reforming EHS and incentives is required and must include two interlinked approaches:

1. Phasing out and eliminating harmful policies to stop financial support to activities that have unintended negative impacts on biodiversity and the environment;
2. Increasing incentives for actions by businesses and other stakeholders that deliver positive long-term outcomes for people, nature and climate through innovative, circular, regenerative and profitable business models. This requires the internalization of negative externalities associated with the use of biodiversity, by scaling up positive incentives for biodiversity conservation and sustainable use - including via economic instruments - so it reflects the true value of biodiversity in all decision making.<sup>8</sup>

### Environmentally Harmful Subsidies (EHS)



### While considering:



Only with these two approaches can we create an economic level playing field that encourages the rapid transformation of business models. The reform of environmentally harmful incentives, including subsidies, is an essential step in changing the rules of the game and correcting the market distortions created by our current economic and financial systems.

This is a complex challenge, but one that presents a wealth of opportunities for governments, businesses and investors to secure resilient economies. However, this transition needs to be planned and managed carefully to deliver its full potential that is supported by relevant stakeholders and avoid any risk of unintended consequences, such as negative impacts on peoples' livelihoods and on communities. Subsidy reform must therefore be anchored in a just transition for both people and planet.

Although the imperative to reform subsidies is global and requires international cooperation, action on subsidies will take place largely at the national level since national governments are responsible for public subsidies and incentives.

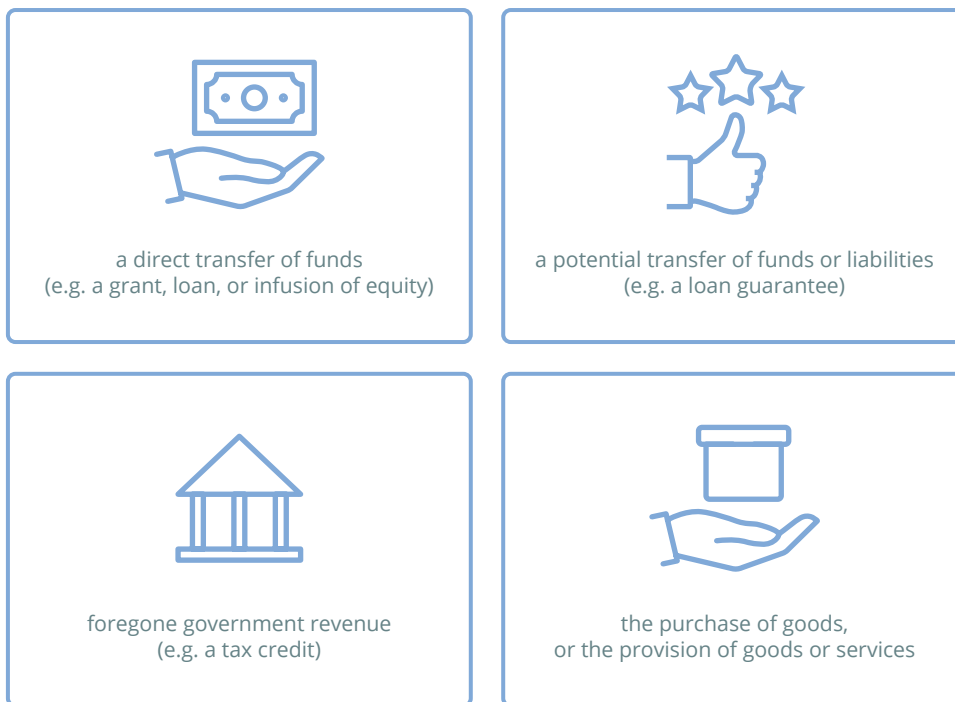
<sup>8</sup> OECD, 2022 OECD Environment Working Papers No. 206, Identifying and assessing subsidies and other incentives harmful to biodiversity: A comparative review of existing national-level assessments and insights for good practice, 2022

Convention for Biological Diversity (CBD) [Guidance on Target 18](#): “Incentives, including subsidies, harmful to biodiversity are an important underlying driver of biodiversity loss. Substantial and widespread changes to subsidies and other incentives that are harmful to biodiversity are required to ensure sustainability. Eliminating, phasing out or reforming harmful incentives is a critical and necessary step that would also generate net socio-economic benefits. The creation or further development of positive incentives for the conservation and sustainable use of biodiversity would also help reach the 2050 Vision for biodiversity by providing financial resources or other motives to encourage actors to undertake actions that would benefit biodiversity.”<sup>9</sup>

While there is no universally agreed definition, the World Trade Organization (WTO) defines a “subsidy” as a direct or indirect financial contribution by a government, which provides a benefit. Subsidies incentivize private companies and other public entities to undertake economic activities deemed to be in the public interest.

Environmentally harmful subsidies are subsidies or incentives that unintentionally encourage unsustainable production or carbon-intensive consumption, the depletion of natural resources, or the degradation of global ecosystems. Moreover, they distort market prices, resource allocation and investment decisions, contribute to unfair competition, and create reputational risks for business.

**A subsidy can be:**



Given the complexities and sensitivities related to EHS, there are several important factors and challenges to bear in mind when planning their reform:

- 1. EHS come in different forms and sizes** – While subsidies often take the form of cash payments, they also include government provision of credit, liability caps, special tax breaks or regulatory exemptions, or below-market provision of publicly owned goods or services. Smaller size subsidies, like producer subsidies for instance, designed to generate as much private sector funding as possible through de-risking investment, and can have major impacts by locking in finance that will harm biodiversity for decades. The size of EHS also strongly varies amongst countries.
- 2. EHS can be found across the whole economy** – Sectors in which EHS are prevalent include agriculture, energy (including fossil fuels, water, forestry, construction (including housing), transport (including road building) and marine capture fisheries. These sectors account for the vast majority of greenhouse gas emissions and impacts on ecosystems.

<sup>9</sup> Convention for Biological Diversity (CBD), [Global Biodiversity Framework \(GBF\) Target 18 explainer](#), 2023



3. **The true scale and nature of EHS are unknown** – In February 2022, a study estimated the scale of EHS to be at least \$1.8 trillion USD<sup>10</sup>, with fossil fuel subsidies accounting of \$640 billion USD of that total. However, in August 2023, IISD reported that fossil fuels subsidies increased significantly in 2022 and public support for fossil fuels in G20 countries alone amounted to at least \$1.4 trillion USD<sup>11</sup> (in the form of subsidies - at least \$1 trillion USD; investments by state-owned enterprises (SOEs) - \$322 billion USD, and lending from public financial institutions (PFIs) - \$50 billion USD), due to a stark increase in market prices for fossil fuels. As there are time lags in the availability of data sets, and regular variability due to market forces causing fluctuations in subsidies amounts, any formal assessment will be a historical snapshot. Furthermore, datasets related to EHS are often of poor quality and contain gaps. And while most assessments cover the most harmful sectors (listed above), other sectors with high potential for environmental damage are often not included in scope (e.g. fashion, electronics, plastics, chemicals, shipping and aviation). Furthermore, the use of different scopes and definitions means that comparative analysis is complex<sup>12</sup>. Therefore, it is important to understand that any figure on EHS is an underestimate and any quoted figure should be preceded by “at least” to reflect this caveat.
4. **EHS were often established with good intent but have unintended consequences** – Subsidies are commonly established to promote economic access and solve social issues such as food insecurity or improve access to energy and clean drinking water. However, often the intended social goal of subsidies has been pursued without consideration of the full range of their environmental, social or economic impacts. This siloed approach has contributed to the many crises afflicting the natural world, placing livelihoods and economies at risk. It is therefore essential that governments place both social and environmental considerations at the heart of any subsidy reform. People are already facing rising energy and commodities prices. Reform managed sensitively means providing support for the most vulnerable communities, such as via targeted cash transfers or other social safety nets and protections.
5. **EHS are difficult to reform** – Many of these subsidies are deeply embedded in our economies, with vested interests for many stakeholders. Attempts to define, measure and track them often fail to be comprehensive, and progress to reform them has been slow. This is due not only to the power of vested interests or a lack of trust between actors, but also to governments and beneficiaries – including business – being unaware of the full scale of the subsidies and their impacts. Besides, it is often hard to evaluate the potential consequences of a subsidy reform for economic performance at sector or country level, and there is always a risk of unintended social impacts.
6. **EHS reform can improve the lives of the most vulnerable** – In its recent report, the World Bank states that “the belief that subsidy reforms disproportionately affect the poor is not always supported by data. In some cases, such as energy subsidies, wealthy populations benefit more due to their higher consumption. To protect vulnerable groups during subsidy reforms, the report recommends compensating those who may suffer the most, using measures like direct cash transfers. Examples from the Middle East and North Africa show that cash transfers and in-kind assistance were successful in mitigating the impacts on the poor during energy subsidy reforms.”<sup>13</sup>
7. **Fossil fuel subsidies exacerbate the harm from other sectors** – Fossil fuel subsidies often encourage increased consumption and production of fossil fuels, leading to higher greenhouse gas emissions and exacerbating climate change which, in turn, drives biodiversity loss. Subsidies to fossil fuel exploration and extraction also directly drive biodiversity loss (e.g. arctic drilling or tar sands in Canada are subsidized via tax breaks and some other measures). When combined with subsidies that support other environmentally harmful activities, such as fisheries, forestry or industrial agriculture, the overall impact on the environment becomes even more significant. For example, subsidized fossil fuels, such as cheaper diesel, create a dependency and efficiency in modern farming and fishery equipment and result in greater environmental damage. Similarly, road subsidies promote road building in underdeveloped environments, which then allows for environmentally harmful activities such as logging and mining.
8. **Disclosure is a starting point for EHS reform but should not be a barrier to action** – Greater transparency driven by disclosure is a starting point for ensuring effective and accountable EHS reform. Managing subsidy reform in a sensitive and sustainable manner will require a deep understanding of financial flows. Disclosure of subsidy information via a clear and universal monitoring process is needed in all countries. Both the governments distributing subsidies and their beneficiaries, in particular businesses, should disclose subsidy information. Corporate disclosure of subsidies must complement public disclosure to enable effect mapping of subsidies flows. Such monitoring must happen across all sectors and over political boundaries, and without disclosure being a justification for inaction. Several types of subsidies can be reformed with immediate effect and without full disclosure of use, such as unabated coal subsidies.

<sup>10</sup> <https://www.businessfornature.org/news/subsidy-reform>

<sup>11</sup> <https://www.energypolicytracker.org/G20-fossil-fuel-support>

<sup>12</sup> The World Bank, *Detox Development: Repurposing Environmentally Harmful Subsidies*, June, 2023

<sup>13</sup> The World Bank, *Detox Development: Repurposing Environmentally Harmful Subsidies*, June, 2023



RECOMMENDATION 1 –

Conduct a national assessment to identify and assess the types and scale of EHS

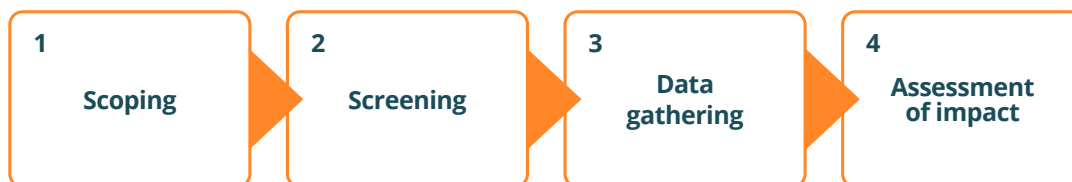
Why is it important?

The complexity and variety of subsidies coupled with the lack of transparency are key barriers to EHS reform, and often used as an excuse for inaction. Insufficient effort to identify subsidies was one of the reasons for the failure of the Aichi Target related to EHS. The OECD reports that very few countries to date have undertaken what is considered the first step in this process, namely to identify and assess the types and scale of any incentives in place at the national level which are harmful for biodiversity or the environment more broadly.<sup>14</sup> Through Target 18 of the GBF, governments have committed to identify EHS by 2025 and this timeline must be respected.

How can it be done?

Governments should produce national-level assessments across all policy areas that identify and review subsidies that have negative environmental impacts. This assessment could follow the four steps outlined by the OECD<sup>15</sup>:

- 1 **Scoping** – This initial stage aims to define the types of subsidies and incentives that will be covered in the assessment. To be comprehensive, the assessment should cover both direct and indirect subsidies<sup>16</sup>.
- 2 **Screening** – The screening will identify the subsidies and incentives that are potentially harmful to the environment. The screening should consider the following questions:
  - What sectors have a particular relevance to environmental harm?
  - What subsidies and support are potentially harmful to the environment?
- 3 **Data gathering** – This step aims to quantify the size of subsidies and incentives. This step should also include:
  - A description of the purpose and beneficiaries of each subsidy or incentive in order to accurately map subsidy flows and identify opportunities and risks for EHS reform.
  - A list of the conditions of receipt of subsidies and incentives that may act as a “policy filter”. This would help identify parts of the population most reliant on subsidies (and therefore at risk from their reform) as well as those actors who receive most subsidies and might contribute to negative impacts on the environment.
- 4 **Impact assessment** – The last step should assess the extent of the harm done to the environment. The assessment can use a “traffic light” system to help governments identify the most harmful and costly subsidies as priorities for reform<sup>17</sup>. The assessment should also distinguish between direct and indirect subsidies for all sectors identified, as different subsidy types require differing policy approaches for their reform. It should also include the positive impacts of potential reforms.



<sup>14</sup> OECD, 2022 OECD Environment Working Papers No. 206, Identifying and assessing subsidies and other incentives harmful to biodiversity: A comparative review of existing national-level assessments and insights for good practice, 2022

<sup>15</sup> OECD, 2022 OECD Environment Working Papers No. 206, Identifying and assessing subsidies and other incentives harmful to biodiversity: A comparative review of existing national-level assessments and insights for good practice, 2022, (Figure 4.1, pg 50)

<sup>16</sup> “Economic support measures come in a wide variety of forms, including direct and indirect support payments, tax expenditures through tax concessions to specific industries or regions, market price support, and other regulations that enhance the competitive position of particular industries or sectors. Consequently, reforming biodiversity harmful subsidies involves more than identifying direct budget subsidies and removing them. Indirect support such as tax expenditures, selective exemption from environmental taxes or governmental regulations, preferential market access, and price support represent different types of off-budget support which have in principle the same effects as direct subsidies, but in a less transparent way.” (OECD, 2022 pg 50)

<sup>17</sup> Specific sectors that are commonly agreed to be potentially harmful to the environment include energy/fossil fuels, agriculture, water forestry, fisheries, infrastructure, transport/road building, construction, housing, mining and plastics.



### Example from the Netherlands

Following the adoption of the Global Biodiversity Framework, the government of The Netherlands published a report on national policy incentives on Food and Nature and their impacts on biodiversity<sup>18</sup>. Applying the OECD's methodology mentioned above, 34 policy instruments were reviewed, including 31 subsidies, two tax measures and one surety support measure.

The review showed that:

- 50% of all policy incentives reviewed potentially have a positive effect on biodiversity

- 76% of all policy incentives have potential to lower their negative effects on biodiversity

- 35% of all policy incentives potentially have detrimental effects and can harm biodiversity

- 17% of all policy incentives are considered neutral for biodiversity

Focusing on incentives with potentially negative effects on biodiversity, the review report also contains suggested measures for reform: to phase out harmful effects, redirect protecting effects to positive outcomes, and strengthen the impact of positive or protecting policy measures.

## RECOMMENDATION 2 -

### Engage stakeholders and raise awareness of the need for EHS reform

#### Why is it important?

Gaining public buy-in is a critical success factor for successful EHS reform and the effective implementation of other technical recommendations put forward in this paper. There is growing political, stakeholder and business support across significant parts of society for reform of EHS. Governments should therefore build on this support, clearly communicate the benefits of EHS reform and engage stakeholders and listen to the concerns at each step of the subsidy reform. This will be crucial in gaining support, minimizing potential resistance and avoiding unintended consequences.

#### How can it be done?

Engaging stakeholders on subsidy reform can be a complex and sensitive process as it often involves changes that can impact various groups. For effective engagement, governments should take the following steps:

- **Map stakeholders** – The process should start with identifying and mapping all relevant stakeholders. This should include government agencies, civil society organizations, businesses, industry representatives, consumer groups, environmental organizations and affected communities.
- **Understand stakeholder interests** – Each stakeholder group will have its own interests, concerns and priorities, and conducting thorough research to understand these perspectives is crucial. It is important to tailor communication and engagement strategies to address stakeholders' specific needs and concerns, for example:
  - engaging with communities directly affected by the reform to address their specific concerns and ensure they are not disproportionately burdened.
  - addressing the impact of subsidy reform on consumers and highlighting how the reform can lead to improved services, reduced waste, or lower costs in the long run.
  - emphasizing to environmental organizations the benefits of subsidy reform such as reduced carbon emissions or conservation of resources.
  - engaging industry representatives early on to understand their concerns and consider their input - highlighting the potential benefits for industries in terms of long-term sustainability and growth.
- **Consult and engage with stakeholders** – Governments should actively seek input and feedback from stakeholders on EHS reform proposals and plans by designing a tailored consultation process. The identification of potential allies and champions who support the reform and can advocate for it within various stakeholder groups is also an important step.

<sup>18</sup> Report available [here](#) and [here](#) (in Dutch only)

- **Develop clear messages** – Successful engagement requires clear and concise messages that explain the reasons for subsidy reform, the positive outcomes of transitioning to more sustainable practices and the potential impacts. It is important to be clear on how subsidy savings will be used and/or redistributed, and to use plain language and avoid jargon to ensure that the message is easily understandable by all stakeholders. This also means investing in effective communication campaigns to gain public support and raise awareness about the environmental, economic, and social benefits of subsidy reform to generate public buy-in and undertake successful reform.
- **Celebrate successes** – Once the reform is implemented, celebrating successes and positive outcomes can help build support for further EHS reforms.

### Example – Agricultural subsidy reform in Switzerland

The OECD highlights an example of successful agricultural subsidy reform through broad stakeholder consultations and public involvement. The main aim of the reform was to better align the direct payment system to meet policy goals, including for biodiversity. Key elements of the reform entailed removing direct payments to livestock farmers and increasing funding to farmers able to meet biodiversity goals (such as avoiding extensive upland grazing and linking ecologically important areas.) The removal of payments for intensive livestock farming was a hotly debated and contentious step, given its likely impact on the incomes of affected farmers. The reform process needed to be carefully planned and communicated in order for it to be politically acceptable.

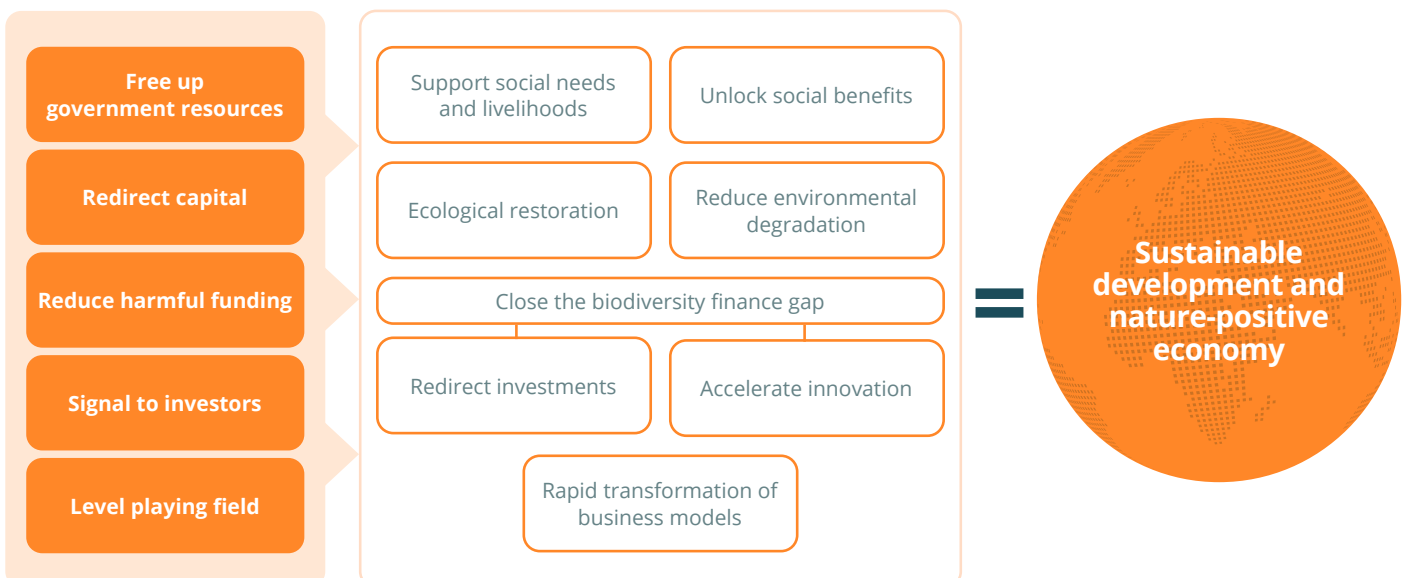
The policy underwent broad consultation involving a wide range of stakeholders such as the Farmers’ Union, economics institutions and environmental non-government organizations (NGOs). Although it is too early to measure the impact of the policy reform

on biodiversity, progress towards ecological goals is positive, and participation in voluntary programs funded by the biodiversity direct payments has exceeded expectations. Incomes and productivity in the sector are expected to be higher as a result of the reform.

Lessons learned from this process include the importance of building an alliance of market-oriented and ecological interests, seizing a window of opportunity in a conducive political environment, devising politically and socially acceptable compromises in the reform package, using transition payments to minimize negative impacts on farmers, consulting broadly and ensuring public participation, and using robust evidence to build support for reform and resist pressure from vested interests.

Reference: OECD, 2017, [Reforming agricultural subsidies to support biodiversity in Switzerland](#), Country Study – Environment policy paper no. 8

### Benefits of EHS reform:





### RECOMMENDATION 3 – Co-develop and publish a robust EHS reform roadmap

#### Why is it important?

There is a need to establish a clear pathway to allow the economy to adjust to EHS reform as well as create buy-in and seek contributions from all stakeholders. Key to this is the development of an action plan or roadmap which details a government's EHS reform plan with clear milestones and timelines.

#### How can it be done?

A robust action plan or roadmap for EHS reform should include policies, goals and timelines, taking into account environmental, economic and social priorities. It should ensure a just-transition, with time for stakeholders to adapt to the changing reality of a reformed system (see Recommendation 2) and be developed in partnership with stakeholders and relevant international actors to produce a multi-stakeholder plan which enhances transparency, accountability and societal engagement (see Recommendation 3).

In developing an EHS reform roadmap, governments should:

- **Establish objectives** – Clearly defined goals and objectives will help ensure that relevant stakeholders are engaged in the development of the reform's purpose and its desired outcomes and build a shared understanding.
- **Prioritize by impact** – It is key to prioritize the reform of subsidies that have the most significant negative environmental impacts or those that provide the least benefit relative to their environmental impacts. For agriculture, this means discouraging incentives that prioritize yields of certain products at the expense of the climate and environment and balancing this with new monetary incentives that put a value on sustainable agriculture. Other priority areas include decoupling support from production metrics for single commodity transfers with high associated greenhouse gas emissions; and carrying out a detailed socio-economic analysis including gender dimensions and a focus on vulnerable groups and poverty and health impacts.
- **Use expert advice** – Seeking cross-cutting expertise to help inform EHS reform through the establishment of national expert committees involving diverse relevant non-state actors, academics, experts and stakeholders is key to the development of an effective EHS reform roadmap. These committees should include diverse non-state actors, academics, experts and stakeholders, and bring together diverse perspectives and experiences related to the reform's objectives.
- **Co-design integrated solutions** – Governments should work with affected industries, civil society organizations and the public to co-design policy solutions and implementation strategies for EHS reform. This collaborative approach helps ensure that different perspectives are considered and fosters a sense of ownership and support for the reform process. Working on reforming multiple subsidy sectors together offers synergies and useful trade-offs across sectors and economic actors (e.g. between the agriculture, health and finance ministries, but also for women and youth), which could increase the efficiency and the effectiveness of reform and deliver co-benefits. Subsidy reform needs to be done systematically to ensure policy coherence across governments.
- **Announce early and phase reform** – This roadmap should be used to create awareness and announce expected reforms. Together with gradual phase-out plans for harmful subsidies, this would allow affected industries and individuals to adjust while providing support for the transition to sustainable alternatives. It can also help dissipate any concerns from other countries by tackling these concerns before the reform formally enters into force.<sup>19</sup> Sudden, unexpected removal of subsidies can cause economic and social disruptions, particularly for vulnerable populations.
- **Increase positive incentive** – Developing alternative policies and positive incentives that encourage sustainable practices and align with their environmental goals can complement and amplify subsidy reform. This can include redirecting subsidies towards environmentally friendly alternatives, investing in renewable energy, supporting sustainable agriculture, creating incentives for circularity, or promoting resource efficiency. Alternative forms of direct support to the most vulnerable to reforms can be effective in addressing the original social purpose or policy objective. Measurable, performance-based conditions should be used to deliver financial support to member states and farmers in proportion with the cost of delivering public goods or environmental services.

<sup>19</sup> See Article 25 of the WTO Agreement on Subsidies and Countervailing Measures, and in particular Article 25.2 which provides that "Members shall notify any subsidy as defined in paragraph 1 of Article 1, which is specific within the meaning of Article 2, granted or maintained within their territories." [https://www.wto.org/english/docs\\_e/legal\\_e/24-scm.pdf](https://www.wto.org/english/docs_e/legal_e/24-scm.pdf)



- **Disclose use and detail redistribution of savings** – Transparency must be at the heart of subsidy reform, including the mapping of subsidy flows through the development of international standards, frameworks and guidance for EHS reform, including for corporate ESG disclosure. This requires government organizations as well as companies and financial organizations to disclose impacts, benefits and dependencies to EHS. Roadmaps should also detail how savings from EHS reform will be used and redistributed.
- **Take a nuanced approach** – EHS reform can differ between sectors as well as between countries depending on their circumstances. For instance, some countries are wealthier than others while some will need to include financing plans in their roadmaps; and some sectors may cause more environmental harm in some countries than in others. These differences in circumstance need to be accounted for in the roadmaps.

RECOMMENDATION 4 –

Reform to ensure a just transition, while retaining or strengthening original social purposes

Why is it important?

A systematic reform of all EHS is a complex challenge and must be treated sensitively to account for the full potential impacts of a given reform, as some of this support could be addressing an important and ongoing social need. Some subsidies are indeed used to generate environmental benefits, such as payments to farmers to shift to regenerative practices, reduce agricultural run-off or maintain ecosystems. Therefore, understanding the original purpose of a subsidy and recognizing that this original purpose may remain valid is an important step in securing a just transition that protects vulnerable communities. This step is also critical to avoid the risk of unintended consequences and to generate social acceptance and political support. Complexity cannot justify inaction and when done appropriately, EHS reform presents a wealth of opportunities.

How can it be done?

Socio-economic considerations must be central to any reform to ensure a just transition. Governments should therefore:

- Undertake a full economic, social and environmental cost/benefit analysis of EHS, including detailing all negative impacts as well as any positive social outcomes. This will require a thorough understanding of the policy framework that underpins subsidies to identify positive outcomes which may provide multiple social purposes.
- Ensure that the initial objective of the subsidy (e.g. food security or energy access) is kept and aim to retain or improve positive social benefits during reform, such as expanding sustainable energy access for poorer communities, helping regions develop, supporting farmers and smallholders, providing employment, and improving energy or food security. Informed trade-offs will need to be made, including between different types of subsidies.

To avoid potential adverse consequences, successful EHS reform should follow these **principles**:

1. Ensuring open communication and an adequate transition time to manage the political economy and ensure support. Clear timelines will allow individuals and corporates to adapt and prepare.
2. Managing reforms gradually as sudden, unexpected removal of subsidies can cause economic and social disruptions, particularly for vulnerable populations.
3. Ensuring that vulnerable parts of society are not unduly harmed, including through providing compensation and redistribution of savings as appropriate.
4. Strengthening social and environmental protection systems through alternative policy solutions to harmful subsidies.
5. Establishing credible and transparent systems for reinvestment and redistribution of reform revenues to align public finance with sustainability objectives.
6. Increasing available funding for just transition mechanisms or funds to unlock the necessary finance to support affected stakeholders who are impacted by reforms.
7. Managing commodity price volatility through smoothing measures and smart timing including gradual phasing out of harmful subsidies.
8. Adopting complementary policies to create positive incentives to support the reform if price deregulation is not enough.



## RECOMMENDATION 5 –

## Enhance accountability and governance for EHS reform, including monitoring and reporting progress

## Why is it important?

The OECD notes that “there is no definition of a subsidy that is universally accepted by all who use the term - national accounts statisticians, trade negotiators, environmental economists and the general public.”<sup>20</sup> Furthermore, many governments that signed the WTO Agreement on Subsidies and Countervailing Measures (ASCM - the multilateral trade agreement that regulates the use and definitions of subsidies and anti-subsidy actions)<sup>21</sup>, do not apply these definitions to their fossil fuels-related or other environmentally harmful incentives and therefore do not class them as subsidies in relevant national accounting. This lack of agreed terminology and definitions is a barrier to action as it undermines the transparency needed for successful reform. Establishing a common understanding and terminology and agreeing a clear map of policy milestones and enhanced governance arrangements will improve communications and accelerate action among key actors and stakeholders. This, in turn, will aid in the scrutiny and accountability of subsidy reform which is critical to ensure fair and equitable outcomes.

## How can it be done?

Governments should develop necessary accountability and governance arrangements to enable fair and transparent subsidy reform.

This can include:

- **Development of an EHS reform tracker** – Building on the national assessment, governments should develop national EHS trackers to monitor the progress on the reform roadmap’s implementation. This tracker should be developed in collaboration with civil society organizations (CSOs) to ensure openness. Such a tracker would enhance transparency and enable civil society organizations (CSOs) to keep governments accountable. The tracker should be maintained with up-to-date information regularly based on new policies and verified by relevant third parties to ensure accuracy and relevance.
- **Establishment of monitoring metrics and reporting progress** – In complement to the EHS reform tracker, publicly available metrics should be used to monitor and report the impacts and benefits of subsidy reform. This will help assess the progress made towards environmental, economic and social outcomes from subsidy reform through annual reports. This will also enable governments to make adjustments as needed and ensure the effectiveness of the reform process, including the introduction of more ambitious targets or new policies for implementation.
- **Establishment of cross-cutting government implementation mechanisms** – Effective EHS reform will require all relevant parts of government to coordinate action. Inter-ministerial governance mechanisms designed to overcome traditional siloed approaches to EHS reform and which address policy incoherence are needed to enable policymakers to identify trade-offs and synergies when designing policy solutions.
- **Use of parliamentary scrutiny and audit power to ensure accountability** – Democratic accountability is a critical element to transparent and effective EHS reform. National audit bodies should undertake value for money (VFM) effectiveness audits on EHS reform to enable parliamentary scrutiny and aid in monitoring progress. National parliaments should mandate (or establish) cross-cutting committees and mechanisms to scrutinize progress of EHS reform and hold government officials and ministers to account.



<sup>20</sup> OECD, 2022 OECD Environment Working Papers No. 206, Identifying and assessing subsidies and other incentives harmful to biodiversity: A comparative review of existing national-level assessments and insights for good practice, 2022

<sup>21</sup> [https://www.wto.org/english/tratop\\_e/scm\\_e/subs\\_e.htm](https://www.wto.org/english/tratop_e/scm_e/subs_e.htm)



### RECOMMENDATION 6 –

#### Enhance international cooperation and share best practices on EHS reform

#### Why is it important?

Working collaboratively with other governments and sharing best practice is important to overcome any first-mover disadvantage for countries engaging in EHS reform.

#### How can it be done?

Governments should engage in international cooperation and trade agreements to address cross-border impacts, coordinate efforts with other countries to eliminate harmful subsidies globally and collaborate to share best practices. Governments should also develop guidance for relevant international bodies and UN agencies to develop sectoral specific subsidy reform guidance.

Other actions include:

- Building on the recent success of the World Trade Organization (WTO) on fisheries subsidies<sup>22</sup> to advance EHS reform. This can be done by amending existing WTO agreements or creating new ones to explicitly address environmentally harmful subsidies. These agreements can establish rules and disciplines to govern subsidy practices through trade policy. For example, by using the work and the membership (currently 75 countries) of the **Trade and Environmental Sustainability Structured Discussions (TESSD)**, in order to advance discussions at the intersection of trade and environmental sustainability.
- Joining the **Agreement on Climate Change, Trade and Sustainability (ACCTS)** to work other progressive governments to use trade rules to “discipline” fossil fuel and other harmful subsidies.
- Joining the **Just Rural Transition’s** policy action agenda, backed by 16 countries and co-led by the UK government and the World Bank, where countries are sharing best practices on repurposing agricultural support in line with climate and nature goals.
- Participating in the **Joint Subsidy Platform (JSP)**. The JSP provides data on government support of agriculture, fossil fuel subsidies, fisheries subsidies, as well as sector-specific or economy-wide support. The JSP aims to promote a dialogue among governments by “leveraging and encouraging development and disclosure of more data and analysis”.
- Becoming a supporter of **The Friends of Fossil Fuel Subsidy Reform (FFFSR) Network**. Set up in June 2010, the “Friends” is an informal group of non- G20 countries aiming to build political consensus on the importance of fossil fuel subsidy reform. Current members of the Friends group are Costa Rica, Denmark, Ethiopia, Finland, Netherlands, New Zealand, Norway, Sweden, Switzerland and Uruguay.
- Establishing a Friends of EHS Reform network to share best practice across multiple subsidized sectors and to promote international, integrated action.



<sup>22</sup> [https://www.wto.org/english/tratop\\_e/rulesneg\\_e/fish\\_e/fish\\_e.htm](https://www.wto.org/english/tratop_e/rulesneg_e/fish_e/fish_e.htm)





## The business case for EHS reform

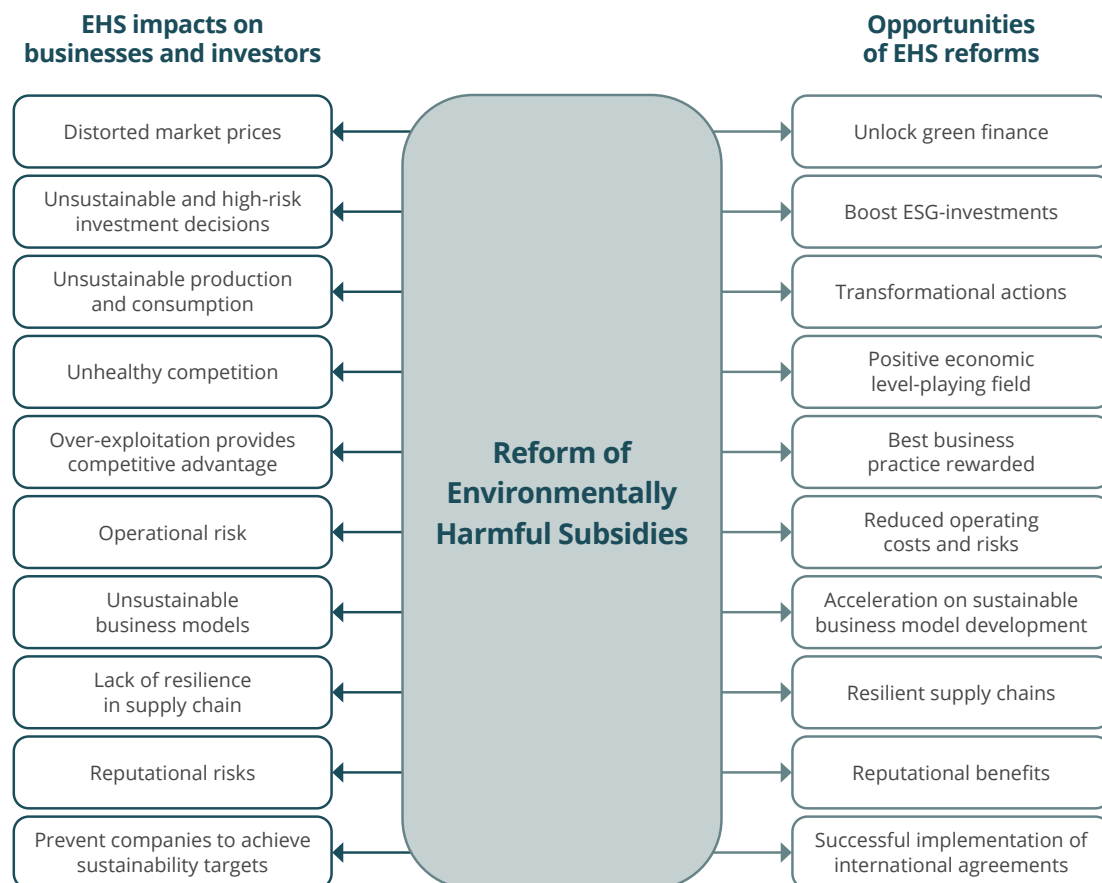
Business is a beneficiary of EHS. Oil Change International reported that in 2015, G20 governments provided support to oil, gas, and coal companies amounting to around \$444 USD billion per year, spread across direct national subsidies, domestic and international finance, and state-owned enterprise investment.<sup>23</sup> Meanwhile, a recent report from the Food and Agriculture Organization (FAO), the UN Development Programme (UNDP) and the UN Environment Programme (UNEP) found that 87% of current support to agricultural producers - approximately USD 540 billion per year - include measures that are often inefficient, inequitable, distort food prices, hurt people's health, and degrade the environment.<sup>24</sup>

EHS distort the playing field for businesses and often benefit the incumbents and conventional technologies, making it more difficult for new, environmentally cleaner solutions to access markets and creating the need for environmentally friendly subsidies.

Effective EHS reform can boost business and investment opportunities, create jobs, help reverse nature loss and ensure a sustainable future and economy. A key to successful EHS reform will be the mobilization of leading companies to demonstrate that EHS reform is both a business imperative and a commercial opportunity.

## The risks of EHS and the opportunities of the reforms for business and investors

Businesses rely on nature at every stage of the value chain. Therefore, receiving subsidies that harm nature is not sustainable and prevents committed and progressive companies from fulfilling their environmental commitments. Leading businesses and investors<sup>25</sup> support effective EHS reform as it also makes economic sense.



Addressing the subsidies challenge cannot be achieved by individual stakeholders alone: radical collaboration is needed from across the private sector, governments and civil society. Engagement with the private sector offers governments advantages in undertaking successful EHS reform. For example, progressive businesses can mobilize and implement change with speed, setting a precedent for improvement across industry.

<sup>23</sup> <https://priceofoil.org/2015/11/11/empty-promises-g20-subsidies-to-oil-gas-and-coal-production/>

<sup>24</sup> FAO, UNDP and UNEP. 2021. A multi-billion-dollar opportunity – Repurposing agricultural support to transform food systems. Rome, FAO

<sup>25</sup> <https://www.fairr.org/news-events/press-releases/usd7-3-trillion-investor-coalition-calls-for-g20-food-subsidy-reform-by-2030>



### To support governments in implementing EHS reform, businesses should:

**ASSESS** the type and amount of EHS they receive in their direct operations and along supply chains and assess how they are dependent on it.

Currently, there is limited understanding amongst businesses of the scale and nature of EHS within their corporate supply chains and operations. Corporate assessments of EHS will enable companies to better understand their own dependency on EHS or the dependency of their competitors. In turn, this will allow them to proactively adopt sustainable practices and technologies that reduce their reliance on EHS and reduce the risk of commodity price volatility. This might involve transitioning to renewable energy sources, improving resource efficiency, or adopting environmentally friendly production methods.

Meanwhile, information on corporate usage of EHS will help policymakers map subsidies flows more accurately and develop business-friendly reform solutions.

**DISCLOSE** the EHS they receive and how these EHS impact or support the company's performance.

As a beneficiary of EHS, businesses should be transparent about the subsidies and incentives they receive, directly and indirectly, and their associated environmental impacts as well as its impact or support on the company's performance and financial results. This transparency can help identify and address harmful subsidies within their own industries and supply chains.

Business leaders should work with governments to support the development of international standards for the corporate disclosure of EHS. Specifically, they should support international bodies such as the International Sustainability Standards Board (ISSB), national financial regulators and standards, and reporting bodies to develop common international standards, frameworks and guidance for mandatory ESG disclosure - including EHS reform standards to aid in transparency and mapping of subsidy flows. The investor community is key to ensuring robust corporate disclosure of subsidies, as indicated by a recent statement from The FAIRR Initiative, a collaborative investor network in the global food sector representing \$7.3 trillion in combined assets, calling for the G20 to phase out or repurpose harmful agricultural subsidies by 2030.<sup>26</sup>

**COMMIT** to EHS Reform.

Businesses should align their interests and operations with principles and policies related to EHS reform and actively support government initiatives to reform harmful subsidies.

Private sector actors have not yet been fully mobilized around a common commitment to support EHS reform. Any such corporate commitment should include disclosure of EHS received as a pre-requisite step.

**TRANSFORM** practices by championing EHS reform.

For this, businesses can:

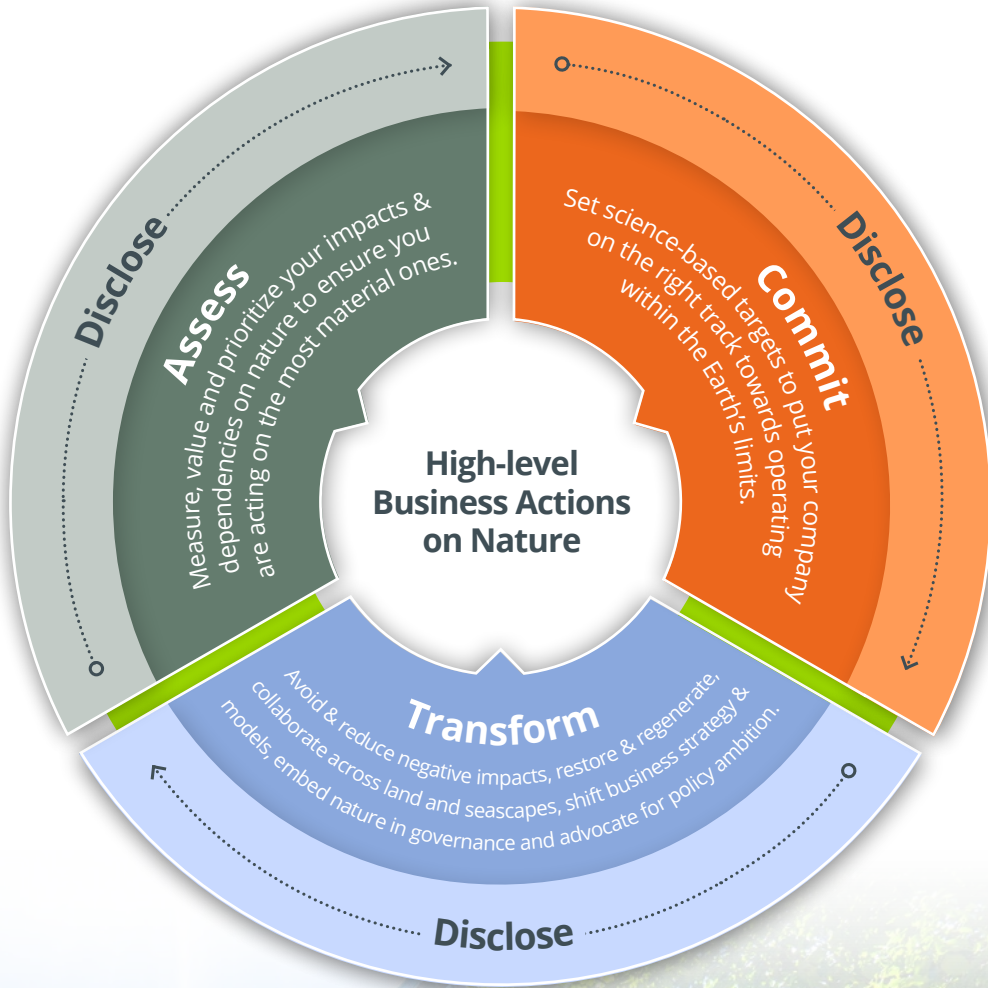
- Use their influence and resources to act as a credible advocate for the reform of EHS. This may be working on EHS reform roadmaps with government officials, participating in progressive industry associations (including ending engagement with misaligned trade associations), and supporting environmental advocacy groups that promote subsidy reform. For example, businesses can also work with governments and other stakeholders to support the development of a new universal call to action for all EHS to be reformed by 2030, with a focus on reform of G20 fossil fuel subsidies by 2025;
- Pioneer corporate disclosure of EHS (see point above on disclosure);
- Based on EHS national assessment (see Recommendation 1), work with suppliers to adapt practices to reduce dependencies on these. This can involve setting sustainability standards for suppliers, or sourcing products and materials responsibly;
- Invest in research and innovation to develop and promote alternative technologies and practices that are less reliant on harmful subsidies; and
- Develop multi-stakeholder collaborations across all sectors and with employees, customers, and stakeholders to raise awareness of the societal, economic, reputational and investor advantages from subsidy reform, and educate about the negative impacts of harmful subsidies on the environment and society.

<sup>26</sup> <https://www.fairr.org/news-events/press-releases/usd7-3-trillion-investor-coalition-calls-for-g20-food-subsidy-reform-by-2030>



### High-level Business Actions on Nature

The Business Actions ASSESS, DISCLOSE, COMMIT and TRANSFORM also applies to subsidies reform



### Additional resources:

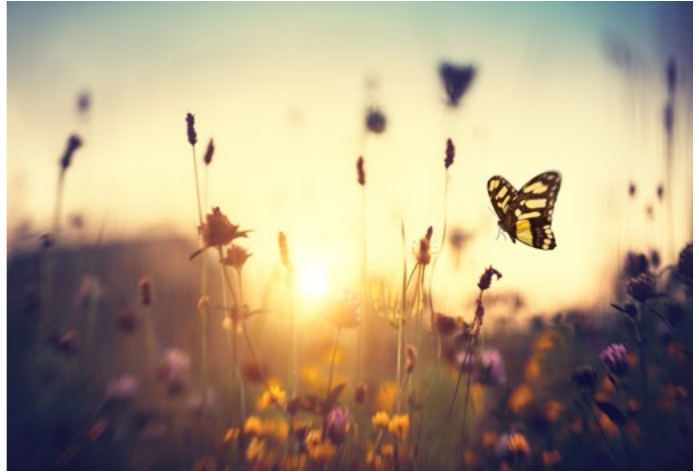
- [The Fossil Fuel Subsidy Tracker](#) – A joint collaboration between the Organization for Economic Co-operation and Development (OECD) and the International Institute for Sustainable Development (IISD), The Fossil Fuel Subsidy Tracker brings together existing international estimates of support for fossil fuels and seeks to help bridge the reporting gap on fossil fuel subsidies.
- [The IISD Global Subsidies Initiative \(GSI\)](#) – The GSI works closely with governments in the quantification, evaluation, and reform of subsidies to help them move away from subsidies that hinder sustainability.
- [The OECD subsidies portal](#) – The OECD plays a role in bringing transparency to subsidies and government support, with extensive experience in measuring and analyzing support across sectors. The OECD subsidies portal contains data and analysis on government support across agriculture, fisheries, industrials and fossil fuels.
- The United Nation Development Plan (UNDP) has various sources of information, case studies and knowledge sharing related to EHS reform, in particular in developing countries, including [The Biodiversity Finance Initiative \(BIOFIN\)](#) and [Socio-Economic Analysis of Subsidies \(SEAS\) simulator](#).

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## Glossary of terminology:

- **Direct subsidies** - Actual financial assistance or support provided by the government or other public entities to individuals, businesses, or organizations. These subsidies are usually given in the form of cash payments, grants, tax incentives, or reduced fees or tariffs.
- **Elimination** - Removal of an environmentally harmful subsidy as a whole. Financial savings arising from subsidy elimination may flow to the government, or to the market participants benefiting from the removal of price supports or trade barriers.
- **Identification** - A mapping of all existing types of support, including direct and indirect incentives, subsidies, tax and public procurement policies to provide an enhanced understanding of the effects and scale of EHS. They may flow from multiple levels of government and utilize a variety of policy instruments.
- **Indirect subsidies** - Financial or economic assistance provided by the government to individuals, businesses, or industries through measures that do not involve direct cash transfers. Instead of providing explicit monetary support, indirect subsidies are typically provided through policies, regulations, or tax incentives that benefit specific sectors or activities.
- **Phase-out** - A deliberate and gradual reduction or elimination of government support or financial incentives provided to specific industries, activities, or individuals. It involves a planned transition away from subsidies over a defined period, with the goal of eventually discontinuing them entirely.
- **Redirection** - Removal of an environmentally harmful subsidy or savings being redirected towards activities that better protect nature and/or social goals associated with the original policy. For example, fuel subsidies to airlines could be removed and redirected to lower carbon forms of transport such as rail. Agriculture subsidies could be redirected away from large-scale monoculture or highly intensive farming towards soil recovery techniques, farm diversity and climate resilience, agroforestry, organic and regenerative agriculture. It could take the form of payment for economic services to remunerate actions for the conservation and restoration of nature, tax savings for businesses upgrading their business processes to reduce impact including through remunerative conservation contracts, support for ozone, and environment friendly and pollution-free products.
- **Reform** - A system transformation to ensure that all direct and indirect subsidies and incentives achieve their original policy purpose while also meeting environmental and social criteria that may not have been fully considered when the policy was originally put in place. Reforming subsidies includes a mix of strategies, for example redirecting or eliminating.
- **Repurpose** - Removal of a subsidy where the savings are redirected towards another type of support while also changing the original aim of the subsidy.
- **Subsidy** - A direct or indirect financial contribution by a government, which provides a benefit (WTO definition).



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