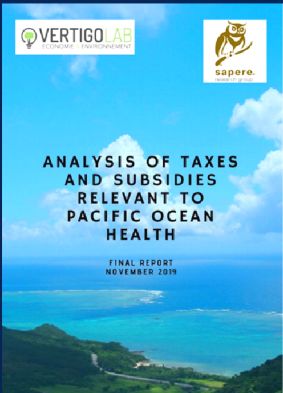


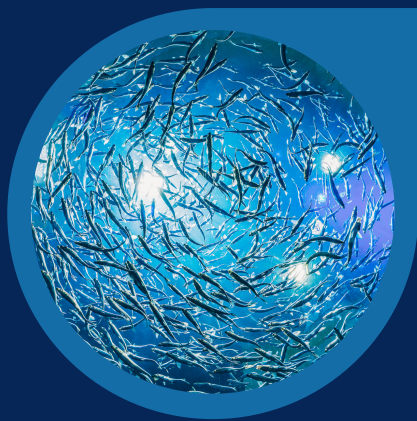


## TAXES & SUBSIDIES ARE A PUBLIC OCEAN FINANCE MECHANISM



Taxes and subsidies are a public ocean finance mechanism— they rely on sovereign governments, since only nations have the power to tax. The primary purpose of this report is to explain how Pacific governments can use taxes and subsidies as a financial lever to support the health of the Pacific Ocean. As a policy instrument, a tax or subsidy offers three potentials:

- Potential to align with ocean health by modifying incentives (for example by internalising externalities from private decisions or subsidising ocean-positive activities).
- Potential to generate financial resources for environmental projects (or to save financial resources by minimising expenditures that harm the ocean).
- Potential to capture records of ocean-related economic activities and place rigours on reporting, which can help account for financial investments in the ocean.



## OCEAN AND TAX SUBSIDIES ONLY HELP WHEN:

A tax or subsidy can only be helpful if the policy is right, well-administered and politically acceptable. This report describes three headline conditions before taxes and subsidies can contribute to sustained ocean health: **right policy, administered-well and politically acceptable**. A government wishing to impose a tax needs to ensure that the objectives for the tax are clear and understood by the populace. The government needs to be assured that the tax is the best way to achieve the desired objective relative to other policies or actions.



## SO WHAT CAN THE GOVERNMENTS OF POFP11 COUNTRIES DO?

The research concludes that the use of taxes and subsidies in the POFP11 countries is heavily constrained as a tool for ocean health. This conclusion does not rule out taxes and subsidies, but instead highlights where the opportunities lie. The diagram illustrates the set of taxes and subsidies used elsewhere (or have potential to be used elsewhere) for ocean health:

Taxing negative externalities	Hypothecation or targeted levies	Taxing resource rents & imposing royalties	Tax concessions	Removing harmful subsidies
Waste import levies Plastic bag levies Pesticide and fertiliser tax Corporate social responsibility tax Carbon tax	Tourist levy Environment levy Waste levies Oil pollution levy Earmarking of revenues from tourism, fishing Earmarking of taxes on financial transactions	Seabed minerals taxes Water bottling royalty Catch royalties Royalties on extractive industries	Conservation tax credits Research tax credits or exemptions Duty or tariff exemptions Income tax exemptions Donor exemptions	(Some) Fishing subsidies (Some) Fuel subsidies (Some) Agriculture subsidies

## THREATS TO THE PACIFIC OCEAN

The threats to the Pacific Ocean are urgent, and serious. The 2018 State of the Ocean workshop concluded that not only are we already experiencing severe declines in many species, to the point of commercial extinction in some cases, and an unparalleled rate of regional extinctions of habitat types (e.g. mangroves and seagrass meadows), but we now face losing marine species and entire marine ecosystems, such as coral reefs, within a single generation.

### Could environmentally related taxes and subsidies work in the POFP11 to support ocean health?

The answer is both simple and complex. The simple answer is yes, for some taxes and subsidies, ocean health can be supported. The complex answer is 'it depends'. The ability of environmentally related tax or subsidy achieve ocean finance goals depends on a combination of rules, politics and administrative practice. Some environmentally related subsidies and taxes fail at a design level: they create more costs than benefits. Other taxes and subsidies fail at an implementation level: They may be well designed to respond to a problem that exists elsewhere but may fail in the POFP11 countries. Others fail at a political level: they are implemented for a time and then removed because they are not accepted by the community or valued by politicians. Therefore, it is essential to apply a 'policy approach' to considering the role of taxes and subsidies in the POFP11. A policy approach considers policy, implementation and political context. Using this approach helps recognise the limitations of taxation and when it can be applied.



Pacific countries are **politically motivated** to protect the ocean environment but constrained in what they can achieve. The leadership on bans of single-use plastic products and fisheries management in many of the POFP11 countries demonstrates they are keen to be good environmental stewards. Effective environmental policy instruments are needed most when the ecosystem is closely connected with livelihoods, as it is with the ocean and Pacific peoples. There is a willingness to consider tax as a tool.



Yet the Pacific (POFP11) countries are different from other countries that apply taxes and subsidies for environmental ends. **They are small island developing states, which poses numerous development challenges including limited resources, remoteness, susceptibility to natural disasters, vulnerability to external shocks, excessive dependence on international trade and fragile environments.**



These challenges are compounded by public finance issues including disproportionately expensive public administration and infrastructure due to their small size, little to no opportunity to create economies of scale, nascent market economies and very small tax bases. These characteristics mean that while the countries have high environmental consciousness, there is a gap between what they want to achieve and what can be financed or motivated using tax.

To give an example of the small tax base, all the countries in the POFP11 have urban populations of less than 100,000 people aside from Fiji (with urban population an indicator of taxable economies). Tax revenue ranges from US\$6 million a year (Tuvalu) to US \$1.1 billion (Fiji).



Pacific countries are changing, however, and their economies are expanding and becoming more formal. The set of countries in the POFP11 have improved tax revenue collection markedly following widespread reforms in the mid- to late-2000s. The countries are still working hard to improve the administrative capacity and capability. But they still need to improve more before tax can be a universally appealing option for conservation finance. This includes bettering the accountability and the way they exercise authority. Many Pacific countries are still working on ways to be more efficient with public revenue management. Some countries (Vanuatu, Solomon Islands, Palau) have comprehensive tax reforms underway or starting soon.

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