

MR MARKET

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I continue with mine... writing some notes on economic analysis applied to environmental protection; in this case, the use of market instruments for the conservation of biodiversity.

60% of the world's ecosystems are used unsustainably or are degraded. 30% of the species of mammals, birds and amphibians are threatened with extinction. The degradation and disappearance of ecosystems fundamentally harms the poorest and is, at times, the main cause of poverty.

The [DG ENV](#) of the European Union is one of the world leaders in the field of environmental sustainability. In terms of biodiversity, the goal of halting its loss in the EU before 2010 was set in 2001. Despite the efforts made, it will not achieve its goal. Aware of this, a new target has recently been set: [Halt the loss of biodiversity and ecosystem services in the EU by 2020 and restore them where possible, as well as step up the EU's contribution to prevent biodiversity loss worldwide.](#)

To achieve this objective, the European Union is favoring the use of market instruments. These instruments, defined by the [European Environment Agency](#) as "Those who seek solve market failures or environmental externalities , either by incorporating the external cost of production or consumption activities in processes or products through taxes or rates or by creating property rights and facilitating the establishment of a market for services environmental", are conceived within Europe as a profitable way to achieve the objectives of conservation and sustainable exploitation of natural resources.

This and other reasons (they allow a flexible response to price signals and encourage innovation; they are cost-effective and encourage desired improvements to be achieved in the least costly way possible; they avoid some of the negative incentives that can cause regulations - in most cases they follow the "polluter pays" principle - have already encouraged some countries to use them. Finland has organized **auctions to bid for grants** to implement measures to protect biodiversity. In the United States, so-called **reserve habitats** have been created, which transform environmental responsibilities into tradable assets that modify incentive structures and behaviors through the assignment of property rights and the creation of markets.

All are market instruments and can be classified into one of the following categories:

- Instruments based on **prices**: taxes, fees and subsidies.
- Instruments based on **amounts**: tradable rights, compensation schemes and liability.
- Instruments **"market-friction"** and **financial instruments**. Although they are not strictly market instruments, they can play an important role in protecting the environment and biodiversity and are often included among them. The former (eg eco-labelling) seek to improve the functioning of existing markets by removing obstacles to market formation and growth. The latter (for example, green funds that offer business financing in the initial phase of a project that meets certain environmental standards) try to channel funds and activities from the private sector towards actions that protect (or do not harm) biodiversity.

In the case of biodiversity, market failure is caused by the very nature of the goods and services it provides: (1) biodiversity-related goods and services are generally public goods, (2) the use or conservation of biodiversity has associated externalities, and (3) sometimes there is asymmetric information among those who pay for it. conservation measures and those who implement them.

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There are no comments yet.