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Financing options for the Global Plastics Treaty

Acknowledgements

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1 Context and purpose

Following Resolution 5/14 of the United Nations Environment Assembly in early 2022, to negotiate an international legally binding instrument to combat plastic pollution, including in the marine environment, the intergovernmental negotiation committee (INC) is meeting from 23 to 29 April 2024 in Ottawa, Canada, for the fourth time. After three sessions, in which a general exchange of views (Punta del Este, Uruguay in autumn 2022) was followed by a more structured development of elements and options (Paris, France in spring 2023), as well as first negotiations on the text (Nairobi, Kenya in autumn 2023), negotiations for the international Plastics Treaty are advancing gradually, with delegates at INC-4 setting out to further elaborate the revised draft text of the Treaty. However, progress is hampered by a division between the nations advocating for ambitious measures and those preferring less stringent ones.

As with all Multilateral Environmental Agreements (MEAs), a significant factor determining the level of ambition is the question of how implementation will eventually be financed, and from what source. It is therefore not surprising that there are major sticking points in the financing options proposed within the Treaty.

Countries differ on how to fund the implementation of measures to reduce plastic pollution. Some argue for an independent financial mechanism dedicated solely to the Plastics Treaty, while others suggest integrating it into existing frameworks like the Global Environment Facility (GEF) (See Figure 1). Additionally, opinions differ about imposing a global plastic pollution fee on primary plastic polymer producers. Disagreements extend to other financing mechanisms, such as creating a separate fund for removing legacy plastic waste, or utilising taxation and subsidy removal.

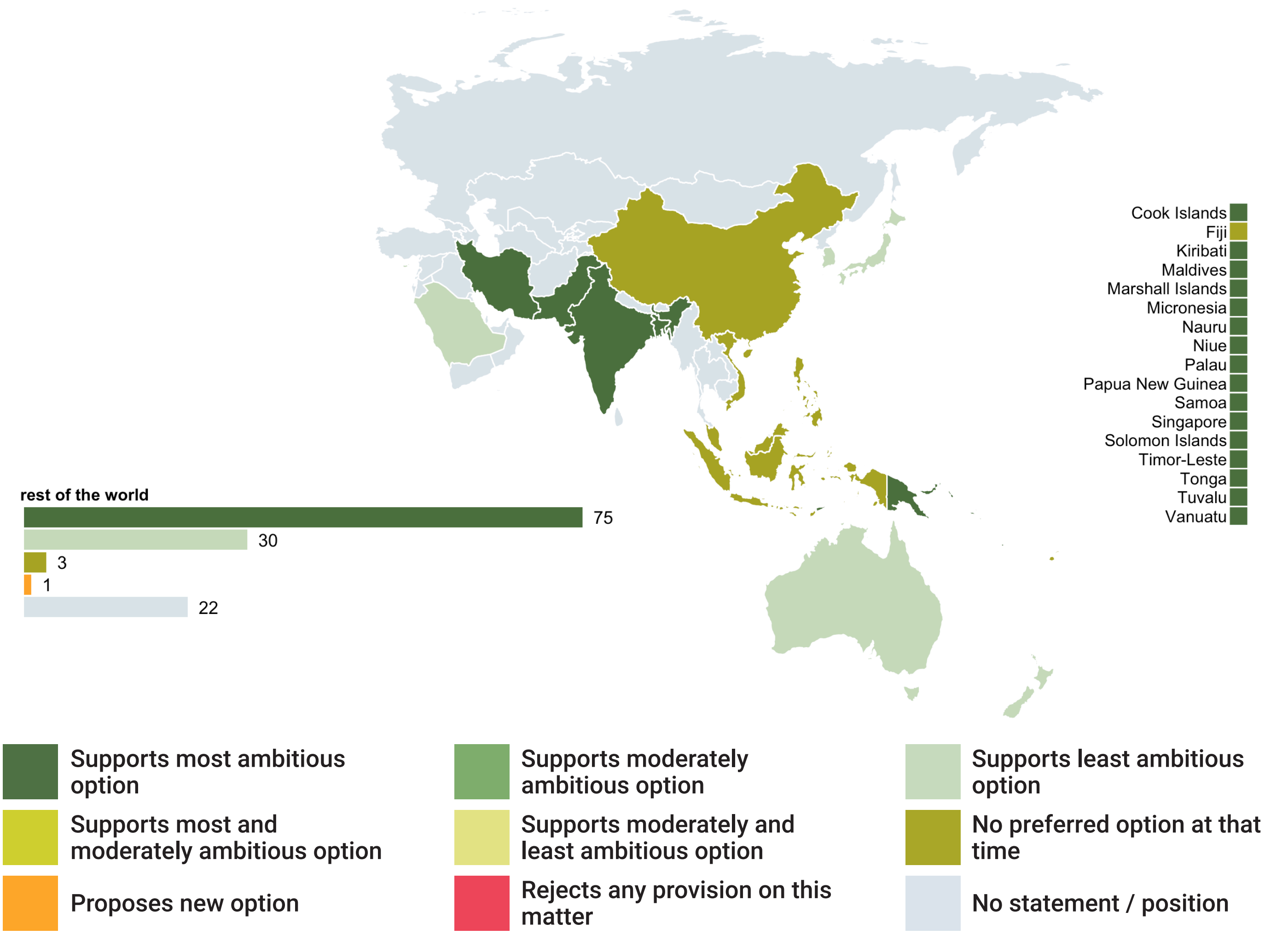

Figure 1 Positions on financial mechanism

Because addressing plastic pollution through international cooperation remains essential for environmental protection and human well-being, this Policy Brief aims to offer SWITCH-Asia countries a concise overview of the financing instruments that are currently on the negotiation table, highlighting how each of them would contribute to the implementation of the Treaty across the life cycle of plastics.

2 Sources and needs

2.1 Policy Brief definitions

For the purpose of this Brief, financial flows at the domestic level (national) are differentiated from financial flows across national boundaries (international). The former include financial flows at the regional and municipal level, while the latter refer to both bilateral exchanges and multilateral, global financial flows. In terms of contributors, this Brief will differentiate between private and public entities, as well as instances where both contribute. Public entities include governments, bureaucratic institutions, and intergovernmental organisations (IOs), as well as international development banks (IDBs). Private entities include businesses, private financial institutions, non-governmental organisations (NGOs), and foundations.

Domestically, public entities can influence financial flows by imposing taxes, fees or levies; by granting subsidies; or by establishing extended producer responsibility (EPR) schemes. Internationally, public entities contribute to and benefit from bilateral or multilateral official development aid (ODA), funds, grants, guarantees, and loans or budgets, among others.

Private entities, on the other hand, are usually guided by their revenues, which can in turn be influenced by the political decisions of public actors (e.g. on taxation, levies, etc.). Additionally, they can issue, or benefit from, grants, investments, loans, bonds or guarantees, or from financial products, or by establishing financing under voluntary EPR schemes, to name but a few possibilities.

2.2 Issues involved in international financial considerations

Financing is crucial for effective Treaty implementation and transitioning to a sustainable and circular plastics economy. Many countries lack the institutional and technical capacities to fulfil Treaty obligations, and will need substantial financial support.

More specifically, transitioning to a circular plastics economy is vital for achieving the goal of the Treaty to address and manage plastic pollution and protect human health as well as the environment. The Nordic Council of Ministers estimates that between 2025 and 2040, a total of USD16.9 trillion will be needed if states agree on ambitious global rules reducing mismanaged plastic waste by 90% and primary plastic polymer production by 30% by 2040. Of these, private actors would bear the major part at a cost of USD 15.4 trillion. Meanwhile, these ambitious global rules would also generate considerable savings, an estimated USD 3 trillion, and the costs of inaction from continuing with a business-as-usual scenario would be far higher than the costs of setting up ambitious plastics management goals'.[1]

In addition, the projected costs that would result from the Treaty are unevenly distributed among developing and developed countries. One major reason for this situation is that developing countries require large financial investments to develop or modify any existing waste management systems to ensure that plastic is properly collected, sorted and eventually recycled.[2]

In terms of financing, Treaty negotiators are advised to consider that financing is best used to aim at both promoting more sustainable actions and discouraging harmful behaviour:

- Actions reducing pollution promote a shift to sustainable, circular practices, such as limiting polymer production, increasing recycled plastics usage, and eliminating problematic products. To promote such actions, governments can incentivise desirable actions through subsidies, tax breaks, and regulations promoting recycling and sustainable products. Information campaigns can also influence consumer behaviour.

1 https://pub.norden.org/temanord2022-514/#95615
2 https://www.oecd.org/environment/plastics/Interim-Findings-Towards-Eliminating-Plastic-Pollution-by-2040-Policy-Scenario-Analysis.pdf

- Conversely, actions contributing to plastic pollution sustain the linear plastics economy, including growing production of primary plastic polymers, use of harmful chemicals, and poor waste management. To discourage such actions, governments can withdraw subsidies and tax breaks, impose taxes or fees, and enact regulations like bans or liability schemes.

Combining measures can amplify effects. Removing incentives for harmful practices while promoting sustainable alternatives can redirect financial flows. Simultaneous bans on non-recyclable plastics and mandates for recycling can reinforce the impact of each one.

3 Financing options

During the Treaty negotiations several measures and options for financing will be discussed. They vary in terms of what they aim to finance (the instrument, capacity building, behaviour change), where they would be implemented (globally or nationally) and whom they would target (public or private actors). This Brief distinguishes between measures to be enacted at the international level from those to be implemented at the national level. The latter could nonetheless be promoted through specific Treaty obligations.

Of course, these financing measures would need to be complemented by various regulatory policies de-risking investments and promoting behaviour change at all levels of society in order to achieve policy coherence.

3.1 Global measures set up by the Treaty

3.1.1 The financial mechanism of the Treaty

What it is: Every Multilateral Environmental Agreement (MEA) includes a financial mechanism, typically centred around a fund that gathers financial resources from participating parties and non-parties to finance projects aligning with the objectives of the agreement.

How it works/might work: Deciding on the design of a financial mechanism involves specifying how it will function, which can include funding and/or coordination. It can operate 1) through a dedicated fund, 2) by raising new resources, or 3) by coordinating existing funds. Choices on operation and governance are pivotal.

MEAs usually offer two options: establishing an independent body to manage funds, or delegating the operation to an existing organisation such as the Global Environment Facility (GEF). Additionally, decisions revolve around establishing either one or multiple funds. The Plastics Treaty might provide for separate funds for distinct purposes, such as addressing legacy waste alongside general funding. Negotiators will furthermore need to decide how contributions will be made. Options may include voluntary as well as mandatory contributions, by public only, or by public and private entities (e.g. through levies and fees).

What it funds/might fund: MEA funds contribute directly to the mobilisation of financial resources (predominantly through contributions, but potentially also through levies and/or fees) and the direct provision of financial support. Direct support usually follows certain eligibility criteria in terms of countries and projects, and may be in the form of grants, technical assistance, capacity-building, or partnerships with private investors through blended finance. Since the mechanism would be established to support the implementation of the Treaty, the financial flows generated would depend on the overall ambition of the Treaty's core obligations and potentially target the entire life cycle of plastics.

How it helps/might help: Overall, one or more funds under a financial mechanism would increase financial flows to activities reducing plastic pollution. They would provide crucial support to countries lacking the resources to meet Treaty obligations, as well as attract private investment, including for research and innovation, by de-risking them. Ultimately, they would likely facilitate actions and initiatives that might not have been feasible otherwise.

3.1.2 International financial institutions and Official Development Aid (ODA)

How they work/might work: Official Development Assistance (ODA) originate in bilateral channels, involving countries directly; or from multilateral channels, such as global development banks and specialised UN agencies. Both forms provide direct financial support and can mobilise and distribute additional resources through various instruments, including grants, technical assistance, and capacity-building initiatives.

What they fund/might fund: ODA can support projects across the plastics life cycle, leveraging financial resources from both public and private sectors. How it is used depends on donor capabilities and strategies, and on recipient country needs. The Treaty's agreed core obligations could direct the flow of ODA by serving as agreed guidelines of what actions are to be discouraged or promoted through actions financed through ODA.

How they help/might help: ODA can increase financial flows to activities reducing plastic pollution, particularly benefiting countries lacking resources. Through blended finance, it can attract additional private investment by mitigating investment risks. Ultimately, the effects of ODA mirror those of MEA financial mechanisms, supporting efforts to combat plastic pollution through investments in research and innovation (see 3.1.1).

3.1.3 Fees and levies (including the Global Plastic Pollution Fee)

What they are: Overall, fees and levies are implemented in order to disincentivise a certain behaviour or product by increasing its price. In contrast to taxes (see 3.2.2), the funds raised through levies or fees are usually collected with a specific purpose for later use. Fees and levies are often employed at the domestic level. However, in the course of the negotiations, one proposed fee has gained particular attention, namely, the Global Plastic Pollution Fee (GPPF), proposed by Ghana. This fee specifically targets the producers of primary plastic polymers. It thus embodies the 'polluter pays' principle at the source while attracting private investment. The GPPF is not meant to work in isolation, and would likely complement other financing mechanisms.

How they work/might work: At the domestic level, the revenues from fees or levies that are collected are usually earmarked to be used for investments that support the underlying cause for raising the fee. In the case of plastics, a levy on a certain plastic product (e.g. single-use packaging), would be used to prevent further plastic pollution by making these products less attractive in comparison to other available alternatives. The inclusion of a global plastic pollution fee in the Plastics Treaty could be either mandatory or voluntary. Negotiators may opt for a mandatory fee, legally obliging each country to establish and collect a fee for producers of primary plastic polymers, which could also extend to other actors in the plastics value chain. Alternatively, they could choose a voluntary fee, encouraging countries to establish and collect the fee at their own discretion and according to their own coordination preferences.

What they fund/might fund: Revenues from fees and levies can be used to provide direct financial support to potentially mobilise additional resources for projects across the entire plastics life cycle. Proposed revenue uses could include investments in waste management, sustainable alternatives, research and innovation, and legacy waste removal.

How they help/might help: As both a financing and an economic instrument, fees and levies can redirect financial flows towards sustainable practices. In the case of the GPPF, fees and levies could potentially reduce primary polymer production while boosting secondary polymer or alternative production. Revenues can also provide crucial support to countries lacking resources to meet Treaty obligations.

3.2 National Measures promoted by the Treaty

3.2.1 Extended Producer Responsibility (EPR)

What it is: Extended Producer Responsibility (EPR) schemes implement the 'polluter pays' principle by holding actors accountable for the entire life cycle of their plastic products. This includes responsibly managing resources, including at the end-of-life stage, and addressing environmental, health, and safety issues. EPR instruments range from public to private schemes and can be designed with various options for legal nature, scope, coverage, responsible parties, leadership, and governance. They can be complemented by other measures such as deposit-refund schemes, taxes, regulations, and awareness campaigns to enhance their effectiveness.

How it works/might work: The design of EPR schemes involves decisions across five core elements:

- The **basic institutional set-up** includes choices regarding the legal nature of the scheme (mandatory or voluntary), the scope (i.e. obligated actors in the plastics economy such as producers, manufacturers, importers, retailers, etc.), the scheme's coverage of plastic products (e.g. plastic packaging only, PET bottles only, gradual increase of covered products, etc.), the responsible parties (either a Producer Responsibility Organisation (PRO), or individual responsibility by each targeted actor to handle the responsibility for their individual products), and lastly, the schemes overall governance (a single non-profit organisation or several competing for-profit PROs).

- The **Objectives, Targets, and Minimum Requirements** include defining the goals for minimum market shares of sustainable products, waste collection, treatment, and standards for sustainable design and technologies.
- The **Financial Flows** determine the fees paid by targeted actors based on the weight or volume of plastics they put on the market, often modulated to incentivise environmentally sound practices.
- The options for the **Organisation of Waste Management** include setting up a system, contracting private waste management companies, or engaging local authorities.
- Decisions on **Supervision, Monitoring, and Enforcement** relate to the mechanisms to monitor compliance with requirements and are typically managed by a PRO, public authority, or an independent body.

What it funds/might fund: EPR schemes serve as both financing and economic instruments. They provide financial resources for environmentally sound waste management, and they incentivise sustainable practices such as clean-ups, improvements in product design, and awareness campaigns.

How it helps/might help: Well-designed EPR schemes increase financial flows to plastic pollution reduction activities across the entire life cycle. They promote sustainable and circular practices, reduce waste generation, encourage recycling, and create markets for recyclable materials.

EPR is not to be confused with a deposit-refund scheme (DRS), although it might complement an EPR scheme by enhancing waste collection rates and incentivising reuse of (plastic) products. DRS incentivises consumers to return their used products or packaging by offering them the return of a charge that was paid at the point of purchase of the original product. The return points may be different from the point of purchase, specific retailers, or redemption centres. DRS implementation can be managed by either public authorities or private entities. Unlike EPR, DRS schemes do not raise and distribute financial resources.

3.2.2 Taxation

What it is: Like the fees and levies mentioned above, taxation influences products, processes, or behaviours related to plastic pollution, and it can incentivise desirable actions by reducing costs and competition. Conversely, it can disincentivise harmful actions by increasing costs and reducing competition.

How it works/might work: A tax is generally raised at the domestic level, since it is a matter of national sovereignty. When aiming at incentivising a certain behaviour or use of a product, a government can opt to offer a tax break (e.g. a tax exemption or reduction) for that product or service. Likewise, when aiming to disincentivise, a tax increase is put in place.

How it helps/might help: Taxation allows financing to reduce plastic pollution by directly generating revenue and indirectly mobilising resources. Direct taxes on undesirable products provide general funding-at-large for governments (i.e. tax funds are usually not earmarked for specific purposes). Indirectly, taxation influences behaviour and attracts financial support from public and private sources. Applied across the plastic life cycle, taxation impacts decisions from production to end-of-life treatment. For instance, tax breaks can encourage recycled packaging, while taxes can deter the production of new plastics. The OECD suggests a tax on primary plastic polymers to raise sufficient funds for pollution reduction efforts.

3.2.3 Subsidies

What they are: Like all market-based and fiscal mechanisms, subsidies serve to incentivise favourable practices that reduce plastic pollution while disincentivising harmful ones by providing or withdrawing financial support, as required. Regarding plastic, there is an additional factor: the removal of harmful subsidies for plastic feedstock from fossil fuels (oil and gas) is one of the explanations for the current low prices for virgin plastic material.

How they work/might work: The granting of subsidies usually lies with sovereign states to promote favourable practices or to give a comparative advantage to a national industry. A government thus needs to decide which actions it aims to promote and which it aims to disincentivise. Then existing subsidies need to be considered to identify any harmful subsidies. Removing these might be more cost-efficient than creating a new subsidy. Where no harmful subsidies exist, incentivising subsidies can be granted.

What they fund/might fund: Introducing subsidies encourages the adoption of eco-friendly practices and potentially attracts more resources beyond direct support. Removing subsidies, on the other hand, may deter pollution-contributing activities, reducing available financial resources for them. Globally, subsidies influence decisions across the plastics life cycle, affecting investments, design, consumption, and waste management.

How they help/might help: Subsidies contribute directly to financing efforts to combat plastic pollution through financial support and indirectly to mobilising additional resources. In addition, they intersect with other financing methods like taxation and EPR schemes, offering complementary approaches to address plastic pollution.

4 Examples on each of the national options from the SWITCH-Asia Region

Extended Producer Responsibility

- EPR schemes for specific plastic products (mostly packaging) are already in place in India and Indonesia.
- In addition, several plans for EPR schemes are currently under development in Thailand, the Philippines, Malaysia, and the Maldives.
- Tuvalu has had a deposit-refund scheme under its waste management (Levy Deposit) Regulation since 2019.

Fees and levies

- Since 2022, **Indonesia** charges a fee of USD 0.02 (IDR 500) per plastic bag.
- Among bans for certain single-use plastic products (SUPs),The **Maldives'** single-use plastic phase-out plan foresees a levy for plastic bags from 2022.
- **Fiji** levies a $0.10 charge per plastic bag.

Taxes

- Since 2023, the **Philippines** have been imposing an excise tax of USD 0.36 (PHP 20) per kg (USD 356.7 per ton) of single-use plastic bags put on the domestic market.
- The idea of a plastic tax is at least mentioned (though not spelled out in detail) in Malaysia's National Marine Litter Policy and Action Plan 2021–2030.

Subsidies

- In 2009, **Singapore** established a 3R Fund, which provides financial resources to companies that decrease waste disposal by minimising waste generation and increasing recycling. The fund prioritises plastic waste.

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