

Global Forest Coalition

Potential Policy Approaches and Positive Incentives to Reduce Emissions from Deforestation in Developing Countries

A submission to the Secretariat of the Framework Convention on Climate Change

1. Introduction

While a small group of countries have made significant progress in reducing deforestation over the past decades, global deforestation rates continue to be unacceptably high. In 2006, the International Tropical Timber Organization concluded that only 5% of all tropical forests were managed in a sustainable manner. Unsustainable forest management is the main cause of forest degradation, while the conversion of forests into agricultural land is by far the main cause of deforestation. The expansion of large-scale agro-industrial monocultures for food, fiber and, increasingly, energy production is both an important direct cause of deforestation and an important underlying cause of forest loss; the expansion of monocultures on existing arable land causes cattle ranching and other forms of agriculture to move towards forest areas and other natural ecosystems.

The UN Framework Convention on Climate Change (FCCC) obliges all Parties that ratified the Convention to conserve and enhance forests and other sinks and reservoirs of greenhouse gases.¹ The FCCC also obliges developed countries to provide financial assistance to developing countries to achieve these and other obligations.² The Global Environment Facility, which was recently replenished with 3.13 billion US dollars for the coming four years, was chosen as the interim financial mechanism to channel this financial support. The Global Environment Facility is in great need of reform, if only because it currently takes an average of 66 months to decide on medium and large project proposals. However, it should be emphasized that its small grants program is widely appreciated as an effective instrument to support, amongst others, policies to reduce deforestation.

2. The Need to include all Forms of Deforestation

Deforestation and forest degradation are both significant causes of greenhouse gas emissions. It should be noted that the replacement of natural forests by monoculture tree plantations is considered to be a form of deforestation by those who foster a definition of forests based on biological science, though it is formally not defined as deforestation according to the definitions adopted in the Marrakesh Accords of the Parties to the Kyoto Protocol. Whether defined as deforestation or forest degradation, the replacement of natural forests by monoculture plantations is a worldwide trend that forms a significant source of greenhouse gas emissions. On average, in tropical areas, plantations store, at best, one-quarter of the carbon stored by natural forests. It is essential that efforts to reduce emissions from deforestation address the emissions caused by the direct or indirect replacement of forests by monoculture plantations. If the political discussion is limited to deforestation, it would be important to change the definitions used so that the emissions caused by this replacement are taken into account.

3. Perverse Incentives: Policies Triggering Large-scale Leakage

Policies and incentives to reduce deforestation can only be effective if they address the underlying causes of forest loss and the macro-effects of forest policies themselves. Already in

¹ "All Parties, taking into account their common but differentiated responsibilities and their specific national and regional development priorities, objectives and circumstances, shall: ...Promote sustainable management, and promote and cooperate in the conservation and enhancement, as appropriate, of sinks and reservoirs of all greenhouse gases not controlled by the Montreal Protocol, including ..., forests ..." (FCCC Article 4.1 (d)).

² "The developed country Parties and other developed Parties included in Annex II shall provide new and additional financial resources to meet the agreed full costs incurred by developing country Parties in complying with their obligations under Article 12, paragraph 1. They shall also provide such financial resources, including for the transfer of technology, needed by the developing country Parties to meet the agreed full incremental costs of implementing measures that are covered by paragraph 1 of this Article and that are agreed between a developing country Party and the international entity or entities referred to in Article 11, in accordance with that Article. The implementation of these commitments shall take into account the need for adequacy and predictability in the flow of funds and the importance of appropriate burden sharing among the developed country Parties." (FCCC Article 4.3)

1996, the UN Intergovernmental Panel on Forests recognized the need to address the underlying causes of deforestation and forest degradation. In its final recommendations, the Panel encouraged countries to formulate national strategies in this respect.

If the macro-effects are not addressed, policies and incentive schemes targeting specific forest areas will unavoidably lead to “leakage”. The term “leakage” is quite inappropriate in so far that it suggests a small-scale impact, while the macro-effects of forest policies can trigger deforestation trends that are actually larger than the positive impacts of these policies on specific areas. Schemes to halt logging in one area will unavoidably promote logging in other areas unless overall timber consumption and log and pulp processing capacities are diminished, and the development of infrastructure in these areas can trigger deforestation of much larger areas than the area originally protected. Schemes that provide a positive incentive for the expansion of eucalypt, oilpalm and soy monocultures, tend to promote the expansion of forms of land use that provide very little labor per hectare of land. Eucalypt plantations, for example, provide up to 800 times less employment per hectare than traditional forms of family agriculture. In fact, these forms of land use replace many small farms. As many of these small farmers will be forced to move to new, unexploited areas beyond the agricultural frontier, these schemes trigger a rapid expansion of the agricultural frontier into forests and other natural ecosystems. The rapidly rising demand for biofuels is already becoming a major cause of deforestation in regions like South East Asia, and it is expected to become a major cause of deforestation and rural depopulation in many other regions too. Standards that only guarantee that the crop concerned has not been produced on recently deforested ignore these macro-effects on forests. Most existing certification initiatives (with the exception of FSC) even allow genetically modified crops, causing major, unpredictable environmental and social risks. Especially the use of genetically modified trees could have devastating impacts on natural forests, due to the high risk of genetic contamination. The impacts of such macro-effects on greenhouse emissions are very hard to estimate.

Another more indirect example of leakage is caused by payments for environmental services (PES) schemes. These schemes tend to create a perverse “right to deforest” for landholders, the macro-effect of which tends to be that a country risks losing most of its forests unless it is able to pay a compensation for every square meter of existing forests. The Brazilian government has calculated that a modest payment for environmental services scheme as implemented by the government of Costa Rica would cost them 5 billion dollars per year if applied to just a third of the Amazon. If applied to the entire Amazon, the Atlantic forests and all its other forest ecosystems, the Brazilian government would have to spend at least 20 billion dollars per year on payments for environmental services to guarantee halting its forest loss.

4. Cheap and Simple: the Deforestation Ban

Happily, there are much cheaper ways to reduce deforestation. In Paraguay, a country plagued by problems of bad governance and impunity, the government succeeded in reducing deforestation by at least 85% in the eastern half of the country between May 2004 and May 2005, thanks to a legally straightforward deforestation moratorium combined with very modest investments in GIS forest monitoring technology and systematic law enforcement based on the satellite information gathered.

In fact, satellite monitoring has made it possible in many countries to monitor forest law enforcement much more effectively than people would have dreamt of ten years ago. Deforestation bans already exists in most European countries, China, Thailand, Costa Rica and many other countries, and they have proven to be very effective and relatively cheap policy instruments. In most major forest countries, especially in Indonesia and Brazil, there is a lively internal political debate about the possibility of a country-wide deforestation ban, and the most important NGOs in these countries are strongly in favor of such a ban.

5. The Need to Safeguard the Social Sustainability of Forest Policy

Payment for environmental services schemes and other market-based conservation mechanisms also tend to create significant negative social impacts, as they further marginalize women, Indigenous Peoples and other social groups that already have a marginal position in

the market economy. These groups are strongly dependent on access to the goods and functions of forests and other ecosystems for their livelihoods, but they often lack the money to pay for environmental “services”. These groups also have less marketing skills and formal land titles to compete in such a market. Carbon trade is specifically detrimental to these groups as it tends to negatively impact land reform and processes to recognize Indigenous Peoples’ land rights. The carbon sinks market has already led to devastating impact on Indigenous Peoples and local communities in countries like Ecuador, Brazil and Uganda.³ The positive exceptions of carbon finance that did contribute positively to community governance have all been the result of intense public governance and official development aid rather than market forces. Even an often lauded payment for environmental services scheme such as the one in Costa Rica is the result of a combined tax and subsidy system developed and implemented by the Costa Rican government with the help of large amounts of official development aid. Meanwhile, the Costa Rican government has failed in its attempts to sell its scheme on the commercial carbon market, as the price of a ton carbon saved is about twice as high as the current market price for carbon sequestration. Without generous donor support and the income provided by its mandatory fuel tax the Costa Rican scheme would have ceased many years ago.

While strict public governance can address many of the negative impacts of payments for environmental services schemes that are implemented by governments and other public institutions, most of these socially equitable schemes are commercially infeasible. In fact, there is no existing example of a socially just and environmentally sound PES scheme that has been fully financed through the carbon market or other market-based conservation schemes. Most schemes promoted as successful examples of PES are classical combinations of taxes and subsidies with at most 10% additional carbon finance, and it should be noted that introducing them into international markets might lead to severe complications with WTO and other trade rules that prohibit commercial initiatives to be co-financed through market-distorting subsidies. It should also be emphasized that these schemes require quite a lot of regulatory and fiscal capacity of governments to avoid fraud and other socially harmful impacts, while policies like deforestation bans tend to be much easier to implement thanks to modern remote sensing technology.

It should be emphasized that deforestation bans and moratoria should also take into account social impacts. Shifting cultivation in secondary forests can be a socially and environmentally sustainable form of land use provided it is applied within a system of community governance and social checks and balances. In consultation with Indigenous Peoples and local communities, governments should allow for exceptions to deforestation bans for activities that do not lead to long-term degradation of the forests concerned.

6. Positive Social Incentives versus Perverse Financial Incentives

It is of utmost importance that incentive schemes are not narrowed down to include only relatively expensive and socially inequitable payments for environmental services schemes, but that more innovative forms of incentives like recognizing land rights and education and awareness building should also be promoted. The discussion on positive incentives tends to be dominated by economic actors with a strong stake in financial incentives like the forestry sector and large conservation NGOs, but the most successful policies that succeeded in halting and reversing deforestation have actually been based on social incentives. In those countries where deforestation was halted it was mainly education, public awareness raising and fostering the traditional value systems of Indigenous Peoples and local communities that formed the key to successful forest policy. These policies created strong social incentives that translated into numerous innovative community-based forest governance schemes. These social incentives also formed the main force behind the increased political will of governments to set and enforce regulations to address corporate and other free-riders that ignored these community-based forest conservation schemes. Of course, whether broad public awareness and traditional value-systems to conserve forests translate into government policy also depends on sound democratic decision-making. Regrettably, forest policies are still dictated by special interest

³ See amongst others <http://www.wrm.org.uy> and Lohmann, L. (ed.) “Carbon Trading, a Critical Conversation about Climate Change, Privatisation and Power”, published by the Dag Hammerskjold Foundation, 2006, http://www.dhf.uu.se/pdfiler/DD2006_48_carbon_trading/carbon_trading_web.pdf

groups in many countries. For that reason, safeguarding genuine democracy and public participation rights and regulations as laid down in treaties like the Aarhus Convention is a precondition to ensure forest policy responds to the values of the majority of the population.

7. Conclusion: Policies and Incentives that Work

Recognizing and safeguarding Indigenous Peoples' territorial rights over their own, often widespread, forest areas, has proven to be a highly effective policy for reducing deforestation in many countries, including, for example, Colombia and Panama. The recognition of their territorial rights forms an important incentive for these Peoples to foster their traditional sustainable forest management systems. Likewise, community conserved areas have proven to be an effective and socially just form of forest conservation in countries like India.

The Mumbai Initiative, an initiative developed by NGOs and social movements attending the World Social Forum recommends, amongst others, that **"Governments must ensure an enabling environment for the community governance of forests."** The Initiative emphasizes that **"Indigenous peoples and other forest dependent communities living in and using forests for their survival needs are the true protectors and governors of these forests and enjoy inalienable rights over their forests...The protection and conservation of forests demand that their rights be ensured."** It also points out that **"The historical role and positive contribution of women in the governance and nurturing of forests must be recognised and their full participation in decision making must be ensured."** The Mumbai Initiative urges Governments to **"ensure that legislation and policies comply with the above principles."** and it urges **"NGOs and other civil society organizations at national and international level committed to the conservation of forests and to the protection of forest peoples' rights"** to **"have a supportive role to peoples' initiatives to govern the forest and to be accountable to them."** The Initiative highlights that **"Society at large benefiting from the broad range of products and services provided by forests must support communities in their efforts to govern and conserve forests."** but it rejects market-based conservation mechanisms: **"The commodification of nature and forests by corporations, governments, international institutions and some NGOs is not acceptable."**⁴

These principles are supported by the Global Forest Coalition and many of its members as a set of principles that provide guidance to effective and socially just policies and positive incentives. It is recommended that the Parties to the Framework Convention on Climate Change take these principles into account when further elaborating policies and positive incentives to reduce deforestation. Providing well-targeted, predictable and sufficient financial support to developing countries is an obligation of developed countries under the FCCC. It should be emphasized in this respect that it is the quality rather than the quantity of financial support that determines the success of forest policies. Carbon finance has already proven to be unsustainable, unpredictable, unstable and inequitable, causing major financial deficits in regions like Africa, and among communities and social groups like Indigenous Peoples and women that are most in need of support for their forest policies. For that reason it is essential that governments, both in developed and developing countries, fulfill their obligations under the FCCC, conserve and enhance forests and other carbon sinks and reservoirs, and ensure the availability of sufficient official development aid to enable developing countries to meet these obligations.

The Global Forest Coalition is a worldwide coalition of NGOs and Indigenous Peoples Organizations involved in international forest policy. The mission of the Global Forest Coalition is to reduce poverty amongst, and avoid impoverishment of, indigenous peoples and other forest-dependent peoples by advocating the rights of these peoples as a basis for forest policy and addressing the direct and underlying causes of deforestation and forest degradation. For more information please visit <http://www.wrm.org.uy/GFC> or contact Simone Lovera, Bruselas 2273, Asunción, Paraguay, tel/fax: 595-21-663654, simonelovera@yahoo.com.

⁴ See also <http://www.wrm.org.uy> for the full text of the Mumbai Initiative and more information about this movement.