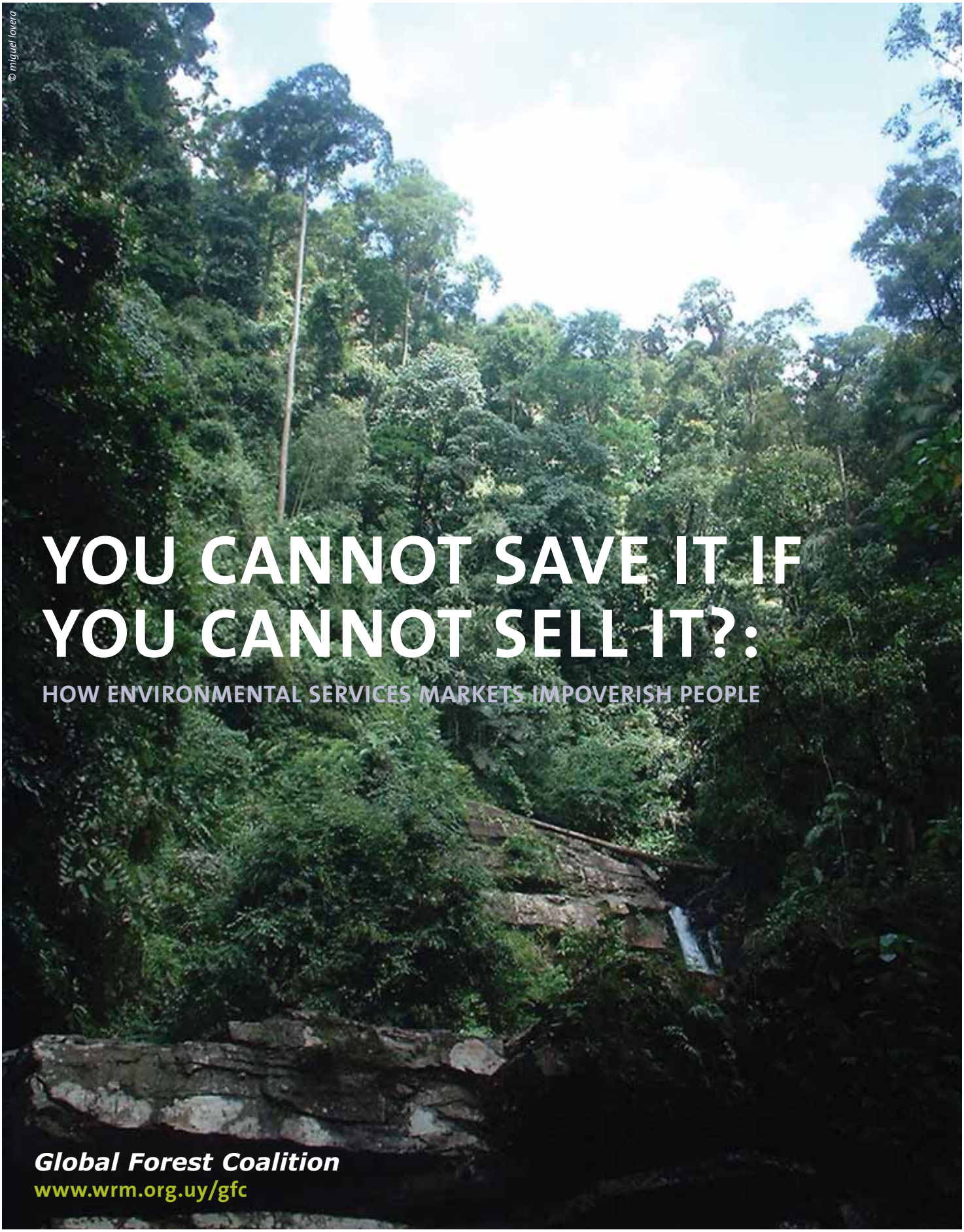

YOU CANNOT SAVE IT IF YOU CANNOT SELL IT?:

HOW ENVIRONMENTAL SERVICES MARKETS IMPOVERISH PEOPLE

Global Forest Coalition
www.wrm.org.uy/gfc

AUGUST 2006 GLOBAL FOREST COALITION

BRIEFING ON ENVIRONMENTAL SERVICES MARKETS

1 ENVIRONMENTAL SERVICES MARKETS: FALSE PROMISES

1. ENVIRONMENTAL SERVICES MARKETS: FALSE PROMISES

Over the last decade a number of environmental economists, mainly based in the US, have been strenuously promoting market-based approaches as the only feasible solution to biodiversity conservation. A range of organizations and institutions (already sympathetic to and in many cases actively promoting neoliberal policies) have responded by enthusiastically embracing this market-based approach to conservation. Such organizations include international financial institutions like the World Bank, a number of large conservation organizations and a broad range of commercial and semi-commercial environmental institutions and consultancy firms.

Waterfall in Mulu National Park.
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Mulu National Park.
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According to these advocates, creating new markets in environmental services is the most efficient way of conserving forests and other environmental assets. They argue that by giving these natural 'assets' a market value and creating a market for them, the 'invisible hand' of the market will automatically generate the desired objectives. The belief is that the market is the most effective and efficient way of reducing pollution because it gives incentives to industry to reduce its emissions in the most cost-effective manner. They also argue that regulation is ineffective and burdensome because it increases rather than decreases industry's costs. The question is: is this really true or not? Is this a foolproof mechanism for protecting biodiversity, with no negative social or environmental impacts?

The first step towards establishing an environmental service market is the privatization and commodification of the environmental assets and functions of the relevant ecosystem (forests, for example). There is a presumption, shared by many, that it is possible to both quantify and commodify the values and assets of nature. Conveniently, this presumption serves the interests of those who stand to benefit from the market-based approach. Critically, however, it completely ignores the interconnectedness between ecosystems, and local communities and Indigenous Peoples, who depend upon and are culturally intertwined with those ecosystems. Some NGOs have pointed out that the term 'environmental services' is being misused to describe a new market 'sector', as can be seen in the World Trade Organization's services negotiations (which include environmental services).

There are remarkably few analyses comparing the predicted benefits of proposed market-based mechanisms with potentially more equitable and efficient public governance approaches (such as focusing on safeguarding community governance or regulating corporations). The market in SO2 and NOx emissions reductions, established in the USA in the early 1990s within the framework of the Clean Air Act, is often quoted as an environmental and economic success. However, there is no comparative analysis available that distinguishes between the success of the US Clean Air policy overall (which includes strong, regulatory binding caps on emissions) and the success of the emissions market itself. On the other hand, there are a number of studies[1] on the social impacts of this emissions market that actually demonstrate a negative result.

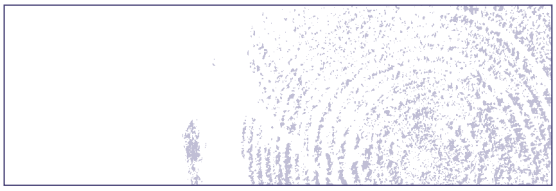
Analyses of the impacts of market-based mechanisms are also obscured by the fact that certain schemes by governmental agencies, such as those that give a subsidy to land holders for improved land management (like the well-known New York City's Watershed Forestry Program) are wrongly presented as examples of commercial markets. In 2002, for example, the International Institute for Environment and Development (IIED) analyzed the social impacts of 287 cases[2], but only a small minority concerned existing private and commercial markets. The Costa Rican Payments for Environmental Services scheme, another frequently quoted example, is mainly financed by a fossil fuel tax. When the Costa Rican government tried to integrate this scheme into the international market for carbon credits in the mid 1990's, it turned out that the prices for carbon credits were too low to cover the costs of the scheme. In other words, it was not the market that delivered the desired results, but a combination of governmental taxes and subsidies.

In short, the case for environmental services markets is not only weak, but unproven. Furthermore, the negative social and environmental impacts could be considerable.

2. UPCOMING AND EXISTING MARKETS FOR ENVIRONMENTAL SERVICES

2.1 CARBON TRADE The United Nations Framework Convention on Climate Change (UNFCCC) was one of the first fora in which market-based approaches to environmental problems were actively promoted. The dominant position of the US in the climate negotiations during the nineteen nineties (when other countries were still hopeful that the world's largest emitter of greenhouse gases would commit to obligatory reductions) was a key reason for such approaches being incorporated into the Kyoto Protocol in the first place. Those same environmental economists who promoted market-based approaches in general argued that paying landholders for forest conservation - by allowing them to sell the carbon

1 e.g. Carbon Trade Watch, 'The sky is not the limit', TNI briefing series no. 2003/1.
2 Landell-Mills, N., and Porras, I.T., Silver bullet or fools' gold? a global review of markets for forest environmental services and their impact on the poor, IIED, March 2002.



2 UPCOMING AND EXISTING MARKETS FOR ENVIRONMENTAL SERVICES

stored in forests as emission reduction credits in a global carbon market - would provide an important financial incentive to conserve forests. This argument has been wholeheartedly embraced by the forestry sector, which realized that such a carbon market could increase its profits.

However, in 2001 the many accounting and verification problems that surrounded the inclusion of forest conservation in the UNFCCC's Clean Development Mechanism led governments to limit permissible forest conservation projects to reforestation and afforestation projects only. At the 11th Conference of the Parties to the UNFCCC, in 2005, a number of developing countries reintroduced the proposal to include some form of incentive for reduced deforestation in the next phase of the climate change regime (the period after 2012). The big question now is whether these incentives will take the shape of market-based mechanisms (like emissions trading) or whether they will take the shape of a publicly-governed mechanism, such as a fund.

2.2 GENE TRADE The Parties to the United Nations Biodiversity Convention (CBD, 1992) included an obligation in the Convention to share the benefits of genetic resources equitably. However, at that time many of the Parties concerned did not assume that this automatically implied a market-based mechanism. Indeed, in its first few years of existence CBD negotiations were marked by a lively debate between countries and NGOs that believed in market-based approaches and those countries, NGOs and social movements that believed in the establishment of a multilateral system that would ensure benefit sharing. A multilateral system was established by the FAO in 1999, as part of the International Treaty on Plant Genetic Resources for Food and Agriculture, which covers a number of important agricultural crops. However, the FAO system still allows genetic resources to be privatized and sold once the initial obligation to pay 1.1% of product sales to the Plant Genetic Resources Fund has been met.

Ultimately, many governments and other institutions in the CBD still favour a market-based approach to benefit sharing. They want a system in which individual governments, communities and/or institutions can sell their genetic resources and related traditional knowledge on a commercial basis. One initiative that is often quoted as a successful example of this (despite its meager commercial results and questionable social impacts) is the sale of Costa Rica's genetic resources to a number of pharmaceutical companies, by the private National Biodiversity Institute (INBio)

In 2002, the World Summit on Sustainable Development (WSSD) adopted a recommendation that an 'international regime on access and benefit sharing' should be negotiated. Four years on little has happened. The 8th Conference of the Parties to the CBD in March 2006 has only just agreed a process and timeline for negotiating the regime. Current negotiations also ignore Indigenous Peoples' rights over their own territories and traditional knowledge, as has been pointed out by Indigenous Peoples time and time again. The CBD has to recognize such rights, which have recently been reconfirmed in the UN Declaration on Indigenous Peoples, an instrument that constitutes a new and important new element of the international regime on access and benefit sharing.

Meanwhile, the relationship between the CBD negotiations and ongoing negotiations on access to genetic resources and intellectual property rights in other fora (including the above-mentioned FAO Treaty, the World Intellectual Property Organization and the World Trade Organization (WTO)), are unclear. The relationship is even less clear now that negotiations within the framework of the WTO have been postponed for "months, perhaps years", as Indian Trade Minister Kamal Nath suggested in July 2006. The question is whether this will create renewed political momentum for a less mercantilist and more publicly governed system of access and benefit sharing.

2.3 ECOTOURISM Ecotourism has been promoted as a market-based conservation mechanism since the mid-nineteen nineties. Despite the fact that the Conference of the Parties to the CBD has cautioned that tourism "operators are very likely to "export" their adverse environmental impacts, such as refuse, waste water and sewage, to parts of the surrounding area unlikely to be visited by tourists" (decision V/25 of the Conference of the Parties), governments have actively promoted ecotourism, especially since the International Year of Ecotourism in 2002.

It should be emphasized that there is no clear definition of ecotourism, and certainly no guarantee of sustainability in terms of the use of water, energy and other natural resources and social impacts. Yet, all over the world small- and large-scale ecotourism enterprises have been springing up. In countries like India, for example, governments are promoting ecotourism as an economic sector that can thrive in remote, infrastructure-poor and ecologically sensitive areas of the country, like the Andaman Islands. Yet in countries such as India, where the gap between rich and poor is particularly marked, there is a severe risk that the development of tourism in isolated natural areas, where the main economic activities of communities are mostly subsistence and non-monetary, will lead to social tension, loss of cultural values, prostitution and the wide-spread destruction of biodiversity.

2.4 BIODIVERSITY OFFSETS In the USA, large conservation organizations have been giving financial incentives to landholders to set aside land for conservation purposes for more than a decade. These same organizations are now experimenting with setting up a market in such conservation 'easements' in developing countries, combining them with the so-called 'biodiversity offset' market. In countries like Paraguay, for example, landholders including large-scale soy producers are legally obliged to offset 25% of their land for conservation purposes. Some conservation organizations are now proposing to turn these conservation easements into tradable assets. The Basel principles on responsible soy production, for example, allow soy to be planted on land deforested after 1994 - provided the deforestation has been compensated for with a biodiversity offset (which could be in the form of a financial contribution to those same conservation organizations that promote the adoption of these principles).

Social movements, on the other hand, fear that these biodiversity offsets will lead to further land concentration and divert attention away from the other environmental and social problems created by the large-scale expansion of monocultures like soy.

3 CONCLUSION: USING LOCAL COMMUNITIES AS GUINEA PIGS

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It is often argued that environmental services markets will be effective and equitable:

i. If all ecosystem values are properly accounted for
ii. If rights are equitably distributed amongst the proper "owners"
iii. If the market is properly regulated and those regulations are effectively enforced
iv. If there is a level playing field, so that biodiversity producers and consumers can all participate equitably

However, in reality most of these conditions simply do not exist, and even where they do they tend to be undermined by the market-based approach and its limitations. For example:

i. It is already broadly accepted that the most important values of ecosystems like forests are non-monetary, and that they cannot be accounted for effectively.

ii. The inequitable appropriation of private property rights over biodiversity is also a major concern. Who has the right to own an ecosystem? The first person who claims it? What happens to traditional rights that are not legally recognized?

iii. Markets are frequently considered as a replacement for regulation, and regulatory measures are often seen as impediments that need to be removed, rather than complementary measures.

iv. There is no level playing field for biodiversity producers and consumers: financially wealthy consumers and producers are the only ones able to participate in environmental services markets.

Ayoreo family in Paraguay. © Miguel Lovera, Global Forest Coalition

The main victims of the market-based approach to environmental services protection are those who do not have the cash to buy their water, fuel wood and medicines. They include women, Indigenous Peoples, landless farmers, and the monetary poor in general. These people also lack the formal land title, marketing skills, investment capital and information they would need if they wished to compete in environmental services markets. As IIED concludes: *"..by spurring competition, markets may lead to the further marginalization of weaker groups as they are evicted from forest lands. Moreover, because markets introduce a money-based system for allocating resources, those with less money have reduced influence over service delivery... The constraints to pro-poor market development are formidable."*

Despite the fact that most existing analyses are skeptical about the social impacts of environmental services markets, especially given the fact that in practice few social safeguards and enforcement mechanisms exist, large conservation organizations and commercial enterprises are still pushing hard to establish such markets. In countries like Ecuador, for example, there is an increasing tendency to approach communities with contracts that imply the sale of a whole package of environmental services that are found on their land, including genetic resources, carbon and tourism-related assets. These sales contracts seldom imply the actual sale of the land, but they do impose severe restrictions on the use of the land by the communities involved. Indigenous Peoples, who tend to have extensive territories that provide a large number of valuable environmental functions, are a particular target for companies that specialize in 'environmental services' trading.

As a result, local communities are being used as guinea pigs to test a neo-liberal model of environmental policy making, even though the environmental effectiveness of these measures has never been properly analyzed. What little evidence does exist, however, shows that negative social and environmental impacts should be a reason for reconsidering the use of environmental services markets.

The Global Forest Coalition is an international coalition of Indigenous Peoples Organizations and NGOs that aims 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.

This briefing paper was made possible through the financial support of the Swedish International Biodiversity Programme (SwedBio) at the Swedish Biodiversity Centre (CBM) and the Dutch Ministry of Foreign Affairs. Please note the opinions expressed are not necessarily shared by our donors.

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