

LATIN AMERICAN FOREST POLICY ROUNDTABLE¹

Inter-American Development Bank

June 28, 1999

Summary Report

Objective

The objectives of the Roundtable were to explore a) policy options, b) strategic initiatives and c) possible actions with which the IDB could contribute to sustainable forestry in Latin America and the Caribbean.

Participants and Sessions

The 75 participants in the roundtable came from the private sector (20), natural resources related NGOs (8), universities (4), governments entities (4) and international agencies such as the IDB (28), the World Bank (7) and others (4). There were four sessions in the roundtable followed by a discussion. The speakers made presentations in the following topics:

I. Sustainability: Opportunities within Crisis

Ralph Schmidt, UNDP: Are Forest Policies Effective?

David Kaimowitz, CIFOR: Forest Policies for the Future

Fernando Razetto, Cámara Nacional Forestal, Perú: Private Sector Perspectives

Manuel Rodriguez, Centro Andino: Public Sector Perspective

II. Market Response

Ronnie de Camino, RNT Inc.: Forest Conservation or Production? A False Dilemma

Douglas Southgate, Ohio State University: Markets, Institutions and Forestry: Consequences of Trade Liberalization in Ecuador

Abraham Guillen, Smartwood: Markets and Sustainable Forest Management

Jared Hardner, Industrial Economics: Concession Options in Forest Conservation and Production

III. Forest Policy and International Financing

Kari Keipi, IDB/ENV: Forest Financing and Policy Studies by the IDB

James Douglas, The World Bank: World Bank Forest Policy Review: LAC Perspective

¹ Organized by the Environment Division (ENV) of the Sustainable Development Department and the Environment and Natural Resource Divisions (ENs) of the Regional Operational Departments of the IDB. The event was opened and the closing remarks given by Walter Arensberg, Chief of the Environment Division. Michael Linddal and Ilpo Tikkanen of the World Bank, and Richard Rortvedt, liaison officer of the USDA at the IDB were instrumental in the preparation of these notes. They were compiled by Kari Keipi of the IDB (Karik@iadb.org) who also coordinated the organization of the event.

Ralph Schmidt, UNDP& Markku Simula, Indufor: Challenges for Forest Financing Worldwide

IV. Capitalization of Global and Local Benefits from Forests

Markku Simula, Indufor: Do Global Conventions Bring Benefits to Forest Owners and Managers?

Claudia Ocaña, University of Maryland: Climate Change and the Role of Forests of Latin America

Roger Sedjo, Resources for the Future: Carbon Projects in Latin America

Randy Curtis, The Nature Conservancy: Local Water Benefits and Financing of Forest Conservation

Final Discussion and Closing Remarks

Session I. Sustainability: Opportunities within Crisis

Moderator: Robert Kaplan, IDB/EN2

Robert Kaplan announced that the Roundtable was being videotaped primarily due to interest expressed by environment officers in several IDB Representation offices. He asked panelists to discuss the public role of forests, private benefits from forests and equity issues related to forest access.

Ralph Schmidt, UNDP: Are Forest Policies Effective?

Effective forest policies must define clearly the objectives. Sustainable forest management systems include: a) conservation and protection (soil, water, biodiversity and tourism); b) management of natural forest; c) agroforestry; and d) plantation management. There are over 500 million hectares of tropical humid forests in Latin America and the Caribbean (LAC). Some 80% of the soils in this area will not sustain agriculture without trees. Sustainable timber production from existing forests can be compatible with protecting the environment.

Sustainable natural forest management involves natural regeneration, use of native species, long rotations, and production of high-value products which does not conflict with water conservation, preserving biodiversity, effective role of forests as carbon sinks and ecotourism. However, sustainable forest management is not widely practiced in LAC due to economic concerns and market-distorting government policies. Even longer-term investors can earn more by investing elsewhere than in sustainable forest production. Government policies have generally not supported economically and environmentally sustainable forestry. Negative results of inappropriate policies include: a) cleared land tends to be worth more than forested land; b) land and forest tenure rights are unclear c) there are hardly any payments for non-market benefits provided by the forests; and d) risks of private investment are high due to the long term time horizon in forestry.

Successful sustainable forest management policies promote a) balance between production and conservation, b) partnerships between public and private sectors, and c) maximization/optimization of multiple economic and environmental values.

David Kaimowitz, CIFOR: Forest Policies for the Future

When sustainable forest management is the most profitable option, regulation is unnecessary (only support services and clear property rights are needed); examples include Central American pine forests, peri-urban greening projects, certified lumber and carbon offsets.

Sustainable forestry is not always the socially optimal solution (e.g., on richer Amazon soils, clearing forests may be a better socio-economic strategy). Who receives rents for forest land is an important equity issue. Preferably the beneficiaries would be mostly small landholders. Sustainable management of large, contiguous primary forests may not be the optimal economic and environmental solution. If forests are viewed according to their principal functions (timber, carbon sequestration, erosion control, game, etc.), then land use mosaics, agroforests and plantations are viable sustainable options.

The most effective policy for protecting forests may be the most politically unpopular - - create “economically protected” areas that remain inaccessible and without infrastructure. Generally, indigenous peoples, and non-timber extractors do not convert forests to other uses nor apply intensive forest management because they lack access to capital, use diversified production systems or hold property in common (which discourages investment).

Central government regulation to protect forests should be considered a last resort; it usually does not work because governments lack presence in most forested areas and the personnel of government agencies tends to be poorly motivated. Furthermore, there is an equity issue ?most LAC regulations favor large producers who get easily monopoly exploitation rights. Local government and NGO regulators do have some advantages (greater presence, local knowledge, more motivation). However, they cannot be considered a panacea since they lack “police powers” and technical capacity requiring external financial support.

In conclusion, future forest policies should: a) support management options with which consider the diverse functions of forests; b) give property rights to forest dependent, less destructive users; c) keep some areas “economically protected” and accept resource depletion in some other areas; and d) use centralized “command and control” regulation as a last resort and experiment with local and private regulation.

Fernando Razetto, Camara Nacional Forestal, Peru: Private Sector Perspectives

Globally, consumers buy \$1.5 billion worth of wood products annually; Andean countries possess about 7% of the world’s forests. Forest products provide significant economic potential and entrepreneurs seek policies which promote forestry’s contribution to increased shares of GDP and exports and generate more employment.

From the private perspective, many government forest policies are not based upon technically-based information, but are influenced by environmental fears. Furthermore, most public forestry agencies are viewed as weak and indecisive. However, both private producers and NGOs share the objective of keeping forest cover intact; dynamic forest management simultaneously produces greater quantities of consumable goods and better environmental services.

Policies, which promote forest management, increase expectations of environmental services, both in protected areas and productive forests. Policies should favor management practices, which allow commercial species in natural forests to quickly grow in size and value while maintaining species diversity and biomass, thus allowing entrepreneurs to have profitable investments based upon increased yields due to sustainable management. Under sustainable forest management systems, the costs of timber extraction (averaging \$10/cubic meter in Peru) can be considered not an expense but an investment. This investment is projected to bring high rates of return due to expected greater harvest volumes and improved quality as a function of appropriate management and extraction practices. The economic advantages of sustainable management of natural tropical forests compare favorably with plantation forestry; prices for most sought after natural tropical timber tend to be three times greater than those for plantation timber. Also, multiple-cycle harvesting of mature tropical timber every eight years or so can generate income more frequently than the exploiting of plantation year cycles.

Conclusions

- Forestry can contribute more to GDP, exports and employment.
- Appropriate forest policies can promote new investment in forest development.
- Forest policy decision-making should be participative and include the highest echelons of the governments.
- Applying sustainable forest management techniques improves both commercial use and conservation options.
- Recognition of forest property rights results in increased private investment in technology and labor, reduced management costs and increased competitiveness of sustainable-origin products.
- Managed tropical forests can be competitive with plantations due to higher prices and shorter harvest cycles.
- Investment in silviculture can earn higher rates of return than other long-term financial instruments.
- Multilateral organizations can contribute to the formulation of efficient forest policies, which will promote investment for development, and conservation of forest resources.

Manuel Rodriguez, Centro Andino: Public Sector Perspectives

The LAC governments are deeply involved in the political and socio-economic conflicts which arise over environmentally sensitive issues. Much of public forest policy is aimed at conflict resolution and can only be understood in that context.

Public forest policies in many Latin American countries are proving to be deficient after the domestic economies have been opened to international markets. The status of public policies falls into several categories: a) unmanageable or very difficult to correct (includes exchange rate

movements, changes terms of export trade); b) feasible to correct, but with low probability for adjustments due to political factors (for example, land tenure); and c) likely candidates for corrections (includes market-distorting subsidies, etc).

Issues which could affect the success or failure of a public forest policy include the following:

1. Formal forest policies are sometimes symbolic and doomed to fail due to enormous gaps between formal institutional models and policies and the sparse technical, institutional and financial resources available to operate them.
2. There is dissonance between hypothetical forest management models and the political and socio-economic realities in which they must work; management plans are often theoretical exercises, not followed in practice.
3. It is difficult and unpopular to strengthen public forest institutions where overall government presence is scarce.
4. Economic incentives are needed to promote commercial reforestation.
5. Command and control mechanisms may continue to be most effective in protected areas. There is a need to share information on how to adjust them in order to make them most effective.
6. Indigenous territories have great forest potential, but there is confusion about appropriate policies for communities with group tenure.
7. Community-organized reforestation and micro-watershed protection are becoming important social forces for conserving forest and water resources.
8. Promising new developments for managing forest ecosystems include: a) bio-regional planning at different levels (multinational, national, regional and local); and b) increasing direct participation of multiple stakeholders and citizens, especially in the management of national parks and determination of permits and concessions for forest uses on public lands.

In summary, the future of Latin America's forests will depend upon reaching consensus on long-term land and resource uses among communities and stakeholders in conflict.

Session II. Market Response

Moderator, Raul Tuazon, IDB/EN1

As on initial note the moderator stated that this session covers, among other topics, the potential for market response to forest management and the roles of market information and certification. For the markets to work it may be necessary to revise the entire marketing system for forestry not only its isolated components.

Ronnie de Camino, RNT, Inc.:

Forest Conservation or Production? A False Dilemma

It is important to make the distinction between forest conservation and preservation, the former being wise and careful use of the resource and the latter being maintaining the resource as untouched. Critics can point to various examples of deforestation, land invasion and forest fires as evidence that both traditional logging systems and forest protection attempts have failed.

Today, it is possible to manage forests in order to achieve both the conservation and production objectives.

Sustainable, good use and management of forests is a process that gives value to forestry as a permanent activity. It necessarily includes interventions in the forest to harvest wood and other products and services. However, the harvest of goods and services has to be maintained within the productivity limits and carrying capacity of the ecosystems. Sustainability requires also that forest management be feasible from a financial and economic point of view according to criteria of the stakeholders that implement forest management.

All stakeholders should participate in the design, implementation, and evaluation of forest management policies. Costs and benefits resulting from policies and concrete actions should be distributed according to rights of the stakeholders while aiming at greater equity. Forest management should be part of sustainable development, not a separate process isolated from sectoral, regional and national development concerns. Reaching good forest management is a process and has to be implemented in successive stages with increasing requirement levels according to specific realities at national, regional and stakeholder levels.

There has been a tendency to “demonize” wood production in tropical forests. Logging was very destructive until the end of the 1980s, but things have begun to change after UNCED meeting in Rio de Janeiro 1992. The treatment of forests has been far from perfect; many errors have occurred, but significant progress has been made. There has also been a tendency to “idealize” forest preservation when, in fact, results have been poor in proportion to the efforts and investments of governments, bilateral and multilateral agencies and international NGOs. The reality is that most arguments for preservation are based upon a limited number of success stories, while arguments against forest management are based upon failures that occurred before 1992. The enemies of conservation are not foresters, nor are conservationists enemies of forestry; the common enemies are poor policies, inadequate budgets and market-distorting incentives for land use.

Sustainable development, as well as sustainable conservation efforts, must address economic, ecological and social dimensions. Traditional logging addressed mainly the economic dimension while traditional conservation addressed mainly the ecological dimension. Since UNCED’92 the pace of policy change has accelerated and there are now examples of good forest management, which broadly address all three dimensions such as Bolivia, Costa Rica, Guatemala and Mexico. Another hopeful recent change has been the rapid increase in Forest Stewardship Council (FSC) certified forest management areas (16.6 million ha worldwide in 1999 versus 4.2 million ha. in 1995; 1.9 million ha of forest have been certified in Latin America as of May 1999).

Specific examples of good forest management from Guatemala and Brazil demonstrate the value of appropriate land use planning and secure land tenure. Good forest management can secure permanent tree cover, maintenance of biodiversity and the elimination of deforestation.

Douglas Southgate, Ohio State University: Markets, Institutions and Forestry: The Consequences of Trade Liberalization in Ecuador

In Ecuador the policy of import-substituting industrialization (ISI), which has been in place throughout much of the second half of the twentieth century, has weakened incentives for timber production by keeping the price of logs artificially low. Despite the trade liberalization of the 1990s, during which average tariff rates have been cut to below 10 per cent, a large gap between domestic and border values for logs continues to exist. Log prices remain low due to the near monopoly on plywood production that persists in Ecuador. Low log prices should induce others to enter Ecuador's forest products industry, but this has not occurred. Investment in the forest product industry is being discouraged for three basic reasons:

1. Corruption is induced by excessive regulation. Current laws require work plans for all logging sites even for those smaller than 100 hectares. Full management plans are needed for larger parcels. Once the plans have been approved, fees must be paid based upon cubic meters of wood cut and processed. As a rule, small-scale loggers ignore the regulations while larger operators must comply or pay a bribe to officials. Current regulations provide multiple opportunities for bribery and discourage the entry of new firms.
2. Property rights are weak on tree-covered land. Many examples can be cited in which land invaders on managed, forested land were not removed.
3. Communally-owned forest lands are weakly organized and poorly managed. The 1937 *Comunas* Law requires that indigenous and other communal leaders may hold office for only one year. Constant leadership turnover and unstable policies encourage corruption. Private investors' reluctance to undertake joint ventures with local communities is a serious impediment to sustainable resource development in Ecuador.

In conclusion, despite recent market liberalization in Ecuador, the forestry sector's response has been disappointing. This underscores the need for improving institutional antecedents for capitalist development such as eliminating regulations which aggravate corruption, securing forest property rights and eliminating legislation which prevents forest-dwelling communities from forming workable partnerships with the private sector.

Abraham Guillen, Smartwood: Markets and Sustainable Forest Management

Environmental factors are increasingly affecting what consumers demand for forest products. The first boycotts were organized by German buyers' groups in the 1980s. The subsequent environmental activism gave rise to certification of forest management and products by the Forest Stewardship Council (FSC) and other organizations. FSC, (which approved certification in 68 countries in 1999) espouses ten principle seeking forest management that is environmentally sustainable, socially acceptable and economically viable.

Furthermore, the International Standards Organization (ISO) has developed ISO Standard 14001 to certify systems of environmental management based upon three principles: respect for laws

and regulations, continuous improvement of resource management and training. To enter the certified market, suppliers must seek certification through the entire chain of custody ?forest, sawmill, secondary manufacturing facility and the end product. The potential benefits of certification include: a) provision of access to new markets, b) promotion of good forest management, c) provision of markets for new species, d) generation of better prices, e) increased coordination between buyers, f) improvement of public image and credibility of producers, and g) access to new sources of financing and investors.

In addition to international certification some countries have national certification systems (e.g., Belgium, Canada, Finland, Germany, Ghana, Indonesia, Malaysia, The Netherlands and United Kingdom). Nearly 400 buyers groups for certified forest products in Europe, North America, Australia and Japan have been formed; they are collectively demanding more certified products than are currently available. Such market power has convinced over 25 leading multinational corporations to seek for products that do not hinder but contribute to sustainable management and protection of natural forests. The overall result is a paradigm shift that is moving certified forest products from niche markets to commodity markets.

Finally, the benefits of sustainable forest management, compared with conventional forest management, are listed below.

Forest Management

Conventional

- * Maximize current income
- * Emphasize production volume
- * Reduce long-term inventory
- * Simplify structure of forests and products
- * Reduce native biodiversity
- * Environmental quality is a cost

Sustainable

- * Build asset value and total return
- * Emphasize quality
- * Increase long-term yields
- * Manage forest complexity for multiple products
- * Increase biodiversity
- * Environmental quality is a benefit

Jared Hardner, Industrial Economics:

Concession Options in Forest Conservation and Production

There is little evidence that genuine sustainable forest management is occurring in Latin America. Many of the commonly cited examples of sustainable forest management in LAC countries are failing.

- In Mexico, a community-based, high-grade mahogany operation is experiencing falling yields, substitution with lower grade species, and no regeneration.
- In Colombia, a cardboard manufacturer is no longer in operation following disappointing quality and quantity of its material.
- In Suriname and Brazil, largely experimental projects are proving unprofitable to operate on a commercial basis.

These examples are not “win-win” projects accomplishing both economic development and conservation, they are “lose-lose” projects accomplishing neither.

The constraints to successful sustainable forestry projects are both financial and silvicultural. There is little motivation to invest when returns on investment in sustainable forestry average 4% annually (2% timber growth + 2% real price appreciation) while real interest rates average several times higher (e.g., 17% in Brazil). Furthermore, there is still little silvicultural knowledge available for the majority of harvested tree species. Existing, highly-touted forest management plans in Brazil and Colombia are largely experimental projects or reduced-impact logging operations, with little impact on future regeneration and harvests.

There are several current popular discussions topics that are bringing only partial solution to the situation. These include:

- Green Labeling. It applies only to certain export markets. Domestic consumption far outweighs exports to “green” consumers.
- Non-Timber Forest Products (NTFPs). Most NTFPs are of lower quality than the international market expects and are often more expensive than alternative products (e.g., natural Amazon latex versus Indonesian plantation rubber).
- Reduced Impact Logging. Less damage in current timber extraction does not necessarily result in sustainable management in the long run.

The most promising opportunities for forests in LAC countries may be selective timber concessions and sale of “conservation services” to the international community. Rapid and light logging, followed by forest protection measures could be the most economic and least-damaging option. Only profitable enterprises should be encouraged. Speculative concessions should be avoided, partly by not subsidizing logging with tax holidays or unjustifiable infrastructure development.

Selling conservation services may be a viable new economic use of forests. Currently, global multilateral assistance for conservation totals about \$500 million annually. Conservation already favorably competes economically with logging in the Central Suriname Reserve and Bolivia’s Noel Kempff Park. Latin American countries enjoy a comparative advantage in this type of international economic exchange with abundant forest endowment and low opportunity cost.

Session III. Forest Policy and International Financing

Moderator: Kari Keipi, IDB/ENV

Session III was based on three invited presentations, and, as expressed by the moderator representing three collaborating international institutions, IDB, the World Bank and UNDP.

Kari Keipi, IDB: Forest Financing and Policy Studies by the IDB

The presentation introduced three main areas of activities embraced by the ongoing general studies in forest of the Inter-American Development Bank: policy, investment and financing. These studies are closely linked with other strategic studies at the IDB, such as of rural poverty, agriculture, coastal resources, water resources, energy and biodiversity. A recently published book² by the IDB on covers the first area of activities. It addresses several topical issues relevant to the Bank's strategy in forestry. The book covers two major themes, i.e., market aspects and rights issues. Market aspects cover certification, environmental services, trade liberalization, taxes and incentives. Rights issues are related to privatization, land tenure security, indigenous people, conflict resolution, participation as well as concession agreements.

An ongoing forest cluster study analyzes investment opportunities using five countries as empirical cases. It examines the following aspects: role of natural and plantation forests in conservation and development; components of forest cluster in different countries; current competitiveness of the forest and forest industry sector; and prospects to develop a competitive forest cluster for Latin America on the basis of global trends. Conclusions will be drawn for the individual countries, regions and the IDB regarding possible guidelines for future investments.

A forest financing study is the third element in the development of a possible strategy in forestry for the Bank. The analysis includes: investment potentials and demand for funding, sources of financing, policy and structural constraints in the region as well as in the Bank, available and possible new funding instruments, and making best use of the IDB's competitive advantages in forest financing. Finally, strategic alliances with other entities are identified in order to enhance collaboration between different local and international institutions for the benefit of the countries in Latin America and the Caribbean.

James Douglas, The World Bank: World Bank Forest Policy Review: LAC Perspective

The main elements and stages of the ongoing process of the forest policy implementation review and strategy of the World Bank were introduced in this presentation. The first part of the process is a retrospective review of implemented policy since 1991 and, based on that, a question will be set for a strategy formulation: Does the World Bank have a meaningful role to play in the forest sector? If so, what is and how do we fulfill it? From environmentally and socially sustainable development perspective forest sector will be central to long-term sustainable development and poverty alleviation. In this context, all the aspects of sustainable forest management, ecological, economic and social, are vital.

Furthermore, the presentation discussed the recent controversial issues and related dialogue about the Bank's role. Information about the present process and structure of Bank's portfolio in forest and forest related lending was provided. Finally, the main building blocks of policy review and strategy formulation process were described demonstrating how the new approach adopted in policy design differs from the classical, earlier World Bank efforts.

² Forest Resource Policy in Latin America. 1999. Kari Keipi, editor. IDB. Washington, D.C.

Ralph Schmidt, UNDP & Markku Simula, Indufor: Challenges for Forest Financing Worldwide

The U.N. coordinated Intergovernmental Forum of Forests (IFF) is discussing a series of forestry issues in global scale. One of them is forest finance. The UNDP has prepared a background study on forest finance, which was the subject of the presentation.

The underlying problem statement was given: How to direct flows of funds from unsustainable to sustainable forest management? The principal objective of the UNDP study was to outline a comprehensive global financial strategy for the implementation of sustainable forest management.

Within the strategy a new financial mechanism, an Investment Promotion Agency (IPA), is proposed to leverage private sector investments. There are various organizational options for the IPA. Recommendations of the study include strengthening the international forest regime, building national-level sectoral capacity through national forest programs of the countries, and creating positive incentives for sustainable forest management. The establishment of an international “Forest Fund” is not proposed due to possible duplication with existing financing mechanisms.

During the discussion that followed the presentation concern was expressed about the reducing trend of official environment and forestry financing as well as lack of stable and long term sources of domestic funding. The development of ways to increase the financial profitability of forest management was emphasized in order to find long term solutions to fund forestry from internal sources.

Session IV. Capitalization of Global and Local Benefit from Forests

Moderator: Asunción Aguilá, IDB/EN1

Forests provide many environmental benefits. The role of international conventions, and possibilities of funding from the recipients of these benefits were discussed in this session.

Markku Simula, Indufor: Do Global Conventions Bring Benefits to Forest Owners and Managers?

The presentation reviewed the current situation as regards the international regime for forests and explored whether existing instruments or a global legally binding convention would bring benefits for forest owners/managers. An overview of existing 17 legally binding instruments related to forests was given in addition to two comprehensive but non-legally binding instruments. Key issues related to the existing regime are the following: international regime in terms of various policy instruments is *fragmented*; comprehensive instruments are *non-legally binding* and *coordination and cooperation* is weak. Except the temporary IFF process there is *no focal point* to deal with global forest issues.

There are several options for developing an international regime, forest convention being one alternative. A global, legally-binding convention, if created, should be based on the following elements: global coverage and clear focus for all types of forests; creation of political will and commitment for policy development at national as well as international levels; provision of comprehensive framework for balanced and holistic approach to sustainable forest management, and equality in the treatment of different countries. The presentation assessed pros and cons of the legal instrument from forest owners/managers point of view resulting in a conclusion that the existing regime tends to focus on environmental aspects and, therefore, have not yet produced significant private benefits to forest owners and managers.

Claudia Ocaña, University of Maryland: Climate Change and The Role of Forests of Latin America

The study focused on the prospect of the Latin American countries for delivering environmental services by reducing the emission of carbon occurring from deforestation and forest fires. Forest owners could receive a compensation for this global service. A key finding from the study was that Latin America has comparative advantages in delivering this service because of the extensive natural forest resource. Another finding was that once the economic incentives are in place it was anticipated that institutions would be established and become increasingly efficient in making use of the carbon sequestration benefits.

A full integration of deforestation into the carbon-trading mechanism involves complex issues of implementation that need to be solved. There are two types of implementation issues: (1) “macro” issues, which relate to the provision of incentives to the developing countries in general, and in particular to Latin America, to become involved in a world wide system of carbon trade and to accept limits on their CO₂ emission rights; and (2) “micro” issues which relate to implementation at the national and local levels to assure that the deforestation reduction goals are achieved.

One recommendation was that communities should be involved and have a share of the international transfers. They should also be able to decide on alternative actions in when to include or not to include carbon sequestration in their forest management decisions.

This decentralized mechanism means that rural communities could directly benefit from CO₂ trade without the mediation of the central government. An infusion of several billion dollars per annum into these communities might make a large contribution towards reducing rural poverty in Latin America. A significant part of the forest fires are caused by subsistence farmers who could earn a much higher income, simply by devoting part of their time to preventing further deforestation.

Roger Sedjo, Resources for the Future: Carbon Projects in Latin America

The point of departure of the presentation was a study Resources for the Future has done in Argentina. The approach used was to investigate the economics of production of timber, and carbon sequestration as an environmental service. This experience shows that carbon

sequestration can increase profitability of forest investments significantly and make projects with only marginal net revenues reasonably profitable.

The critical issue of liability and leakage was addressed, e.g. what will happen with the carbon at the end of the forest rotation once payments have been made? The presenter supported the view of a comparative advantage of Latin America on providing carbon sequestration.

Randy Curtis, The Nature Conservancy: Local Water Benefits and Financing of Forest Conservation

The presentation was focused on the prospects of collecting user fees for water resource in order to compensate those who manage the “production” sites of the resource. The point of departure was an actual case from New York where the city municipality invested in water protection in the production sites and thereby had cost-savings because investments in larger treatment facilities were avoided.

A number of examples were presented on the collection of user fees to secure funding for the protection of the sites ?often forest areas? where the water resources are “produced” in Latin America. One case was the city of Quito where the Nature Conservancy has helped to establish a special fund to finance conservation upstream. Another case was Cauca Valley in Colombia where over 10 user groups have been formed to collect annually some US\$600.000 in fees in order to invest in watershed conservation and forestry upstream.

A concrete proposal to the IDB and the World Bank was that for projects in the urban water supply sector, loan conditions should be included that ensure cost recovery mechanisms to cover the costs of protecting the “water factory” in nearby forest areas.

Final Discussion and Closing Remarks

Moderator: Walter Arensberg

In addition to the discussion earlier in the roundtable (incorporated in the summary description of each presentation above) there were several remarks by the audience towards the end of the event.

Horst Wagner, former principal forestry advisor of the World Bank, noted the high quality of the presentations. It was also his observation that many in this audience already were aware of the general solutions offered to the current forest crisis. As a next step, the voice of the stakeholders in the field should be heard. They will make the decisions and benefit from or pay for the interventions applied in their specific situations. One possibility for future approaches could be to focus on “success stories” where decentralized mechanisms have worked to encourage local participation in sustainable management of forest resource.

James Douglas of the World Bank, questioned what can be achieved by an international “convention” on forests which could not be equally or better accomplished by a concerted

national action. He pointed to the paradox that the only chance to have agreement or a “convention” is if it is based on the lowest common denominator. Concerning carbon sequestration he pointed out possible problems of “moral hazard” (i.e. the lack assurance that carbon will continue to be sequestered once paid for) and the risk of perverse incentives by creating financial compensation for plantations and not for natural forests.

Markku Simula of the Indufor company stressed that the term “convention” in his presentation was generic. He also emphasized that a convention would not be a stand-alone solution. Additional nationally concerted actions would be needed. He pointed out that although there are a number of forest related recommendations within existing international conventions and agreements, such as on carbon, these all tend to be partial and therefore incomplete.

Roger Sedjo of Resources for the Future pointed out that the problem of liability, leakage and lack of insurance in carbon sequestration was a problem, but it could to some extent be dealt with in the funding mechanism. He also added that for forestry one probably has to make a distinction between different origins and types of carbon benefits, and that carbon credits from forest may not all be substitutes for industrial emissions. Moreover, there is a problem to assign a pool of carbon credits for Annex 2 countries in the Kyoto agreement because these countries (including Latin America and the Caribbean) have no cap on their emissions. Finally, there is the risk that protection of one forest resource from depletion may simply shift the place of forest exploitation and increase the pressure on other areas.

David Kaimowitz of CIFOR made the observation that in any policy decisions the issue of land ownership is extremely important. The rights of a landowner define his actions and participation in stakeholder groups in the national scene. He noted that this aspect was emphasized especially by the speakers from the region.

Walter Arensberg (IDB/ENV) summarized the key points of the roundtable:

- The central policy question about forests is almost always: Forests for whom and for what? This central question is answered differently by the different stakeholders.
- The competing claims on Latin America’s forests are many and politically volatile. Putting sustainable forest management into practice is much more complex than talking about it.
- The roles of the public and private sectors need clarification due to the fact that forests may produce various types of public and private goods and services. However, centralized command and control mechanisms should be considered as a last resort. Experimentation should be carried out with local and private regulatory schemes.
- Some competing concepts were presented in the roundtable: 1) the economic protection of natural forests may be feasible mainly by not facilitating access to them, and 2) good, economically viable forest management also provides protection from deforestation and can be considered as a strategy for sustainability.
- Inadequate recognition of many goods and services provided by forests has been a major reason for failure of sustainable forest management. Placing a value on these products and especially environmental services would make forest conservation and development a more integral part of public decision making.

- There continues to be a mixed notion about the economic and political viability of natural forest management projects in Latin America. One of the best approaches to provide forest policy direction may be to study successful cases and analyze their replicability in the region.

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