

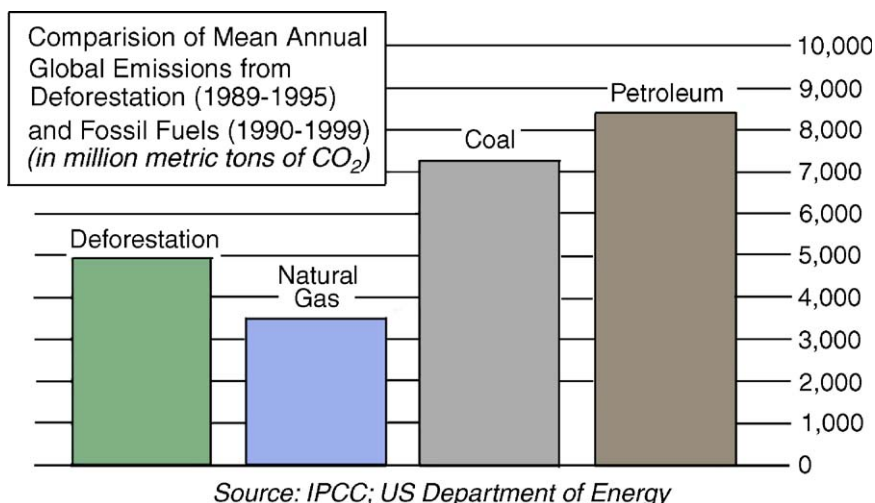


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## EDITORIAL

# Incentive to reduce tropical deforestation

The Coalition for Rainforest Nations is a new player in the climate change game, with the aim of changing fundamentally the economics of tropical forest management, and in particular improving the economic incentives for conserving tropical forests. The rapid loss of forests, the background to the Coalition's formation, is tragic in many ways. It damages the livelihoods of forest inhabitants, some of the poorest people in the world, drives unique biodiversity to extinction and contributes to climate change. This last point is not well-known and bears elaboration: according to the IPCC land use change, primarily deforestation, was responsible for about 25% of all CO<sub>2</sub> emissions in the decade of the 1990s. This was almost as much as the use of fossil fuels in the US economy, estimated to be about 27%. So by reducing deforestation we can make progress in helping the rural poor, conserving biodiversity and stabilizing the climate. There can be few policies capable of achieving so many desiderata.



Formed in the spring of 2005 in response to an initiative of Papua New Guinea, membership of the Coalition also includes Costa Rica, Bolivia, Central African Republic, Chile, Congo Brazzaville, Democratic Republic of Congo, Dominican Republic, Fiji, Guatemala, and Nicaragua.

The Coalition's agenda is to pursue two strategies – financial compensation for reduction of CO<sub>2</sub> emissions through reduced deforestation, and disintermediation of current players in the tropical timber market. Cutting back deforestation reduces CO<sub>2</sub> emissions just as surely as replacing coal by nuclear or renewable energy, and has many additional benefits, yet is not eligible for financial compensation, while replacing coal by renewable energy sources is. So to make the playing field level avoided deforestation carbon credits should be tradable in carbon markets on a par with other offsets, which would value them at present in the range of \$25 per ton of CO<sub>2</sub>. Such a price is high enough to change radically the economic incentives to conserve forests, and is quite competitive with the lumber prices currently received by local communities from logging companies. The Coalition has placed a proposal to investigate the possibility of changing the Kyoto Protocol to allow credits for avoided deforestation on the agenda of the forthcoming Conference of the Parties of the UNFCCC in Montreal in November.

Currently the prices received for tropical hardwoods by the communities selling them are a small fraction of their market value. In the case of Papua New Guinea local communities may receive between \$5 and \$20 per m<sup>3</sup>, while the price of this wood at the dock in the US is about \$700 per m<sup>3</sup>. At the retail level the price is up to \$2000 or more. Most of the margin between the local community's price and the dock price in the US accrues to logging companies for little or no value added. It would not be hard for cooperative action on the part of exporters, in cooperation with end users in industrial countries, to disintermediate existing players and appropriate to the exporters more of the end value of their products. Some local value-added processing would take this process further.

These two steps could radically change the economics of tropical forest management. Currently the only way of producing income from forest assets is to sell them as lumber, at such low prices that only large volumes will produce significant revenue. Recognizing carbon credits from avoided deforestation changes this, making the standing timber an income-earning asset worthy of conservation. There are of course issues that have to be solved before this can be implemented, with baselines, additionality and leakages being central amongst them. Baselines would establish probable future deforestation levels from a business as usual scenario, and deforestation less than these baselines would represent additional CO<sub>2</sub> reduction. Leakage at the national levels would be prevented by requiring national baselines, built around independent studies of deforestation trends at the national level. Satellite observation has greatly eased the problem of monitoring.

The relationship between environmental sustainability and poverty is becoming increasingly clear. Whenever communities make unsustainable demands on ecosystems, the resulting ecological breakdown leads to impoverishment, social tension and conflict. Global markets for eco-system services, of which carbon storage is one, are part of the solution. The Coalition seeks to create new markets

and reform outmoded market and regulatory mechanisms. From the perspective of tropical countries such an alteration would make conservation a financially viable policy, with real economic returns. In return for agreeing to cut CO<sub>2</sub> emissions they would have access to CO<sub>2</sub> markets. Conservation groups should welcome this, because of the massive positive impact on biodiversity. There is probably no other move that could do as much for biodiversity conservation. Industrial countries should also welcome this: it contributes to their objective of climate stability, and industrial corporations emitting greenhouse gases will welcome the additional source of carbon offsets, which may limit price increases in the carbon permit market. The US should see this as a positive move as it brings some developing countries into climate change agreements as active participants. In summary it is an obvious move that should be attractive to all participants in the climate debate.

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