

IUCN

Commission on Environmental, Economic and Social Policies (CEESP)

Theme on the Environment, Macroeconomics, Trade and Investment (TEM TI)

WORKPLAN

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Introduction

In June 2005 the Millennium Ecosystem Assessment (MEA) was published. The objective of the MEA was to assess the consequences of ecosystem change for human well-being and to establish the scientific basis for actions needed to enhance the conservation and sustainable use of ecosystems and their contributions to human well-being. The study shows that over the past fifty years human activity has changed ecosystems more rapidly and extensively than in any comparable period of time in human history. The study reveals that fifteen out of twenty four of the ecosystem services covered by the study are being degraded or used unsustainably. These services include fresh water, capture fisheries, air and water purification and the regulation of local and regional climate, natural hazards and pests.

Although the full cost of this is difficult to measure, evidence suggests that these costs are not only significant, but increasing. This poses serious equity problem as the full impact of these costs is borne disproportionately by the poor and this brings about increasing inequity. Also, future generations may have to carry the brunt of these costs as some costs are deferred. The study also concludes that attainment of the Millennium Development Goals is impaired by the degradation of ecosystem services.

The Millennium Ecosystem Assessment is a landmark study, but it does not cover the key dimension of the nature and dynamics of the driving forces behind environmental degradation. During the past fifty years, economic integration at the global scale has advanced faster than at any other time. Trade and financial liberalization, as well as investment flows, have contributed greatly to this process. However, although economic integration has intensified, a strong debate continues over the unequal distribution of the benefits derived from greater economic integration.

Even if the MEA recognizes the importance of economic and social forces as the key factors leading to habitat destruction and overexploitation of natural resources, it does not analyze them. This explains why the MEA does not make policy recommendations, although it does provide information about a series of on-the-shelf technologies that

could alleviate some of the problems it identifies. In fact, many of the driving forces behind environmental degradation are critical obstacles for the use and implementation of some of the technologies and resource management practices suggested by the MEA in many of its chapters. It is clear that there is an urgent need for a task force to analyze and come up with policy options that open the door to the implementation of the sound technologies listed by the MEA in many of its chapters. This is where the Theme on the Environment, Macroeconomics, Trade and Investment (TEM TI) comes in.

This document presents a draft work plan for IUCN-CEESP's TEM TI. The framework of reference of this proposal is made up of two documents: IUCN's Charter and the CEESP's Intersessional Program 2004-2008. In the first section we discuss briefly TEM TI's background and central objectives; the second section examines the problem areas on which TEM TI's efforts are centered. The third section discusses the general organization. The fourth section presents several key questions concerning ways and means to achieve the work plan's objectives.

I. Background and Objectives

At the 2nd World Conservation Congress in Amman, Jordan 2000 the mandate of a Working Group on Environment, Trade and Investment (GETI) was defined as follows: "to help in defining IUCN's niche in the areas of trade and environment, focusing on providing practical information services to the IUCN membership on the interface between international trade rules and biodiversity. Special focus would be given to the environmental conventions -- CBD and CITES in particular. Joint programmes will be designed and implemented with relevant partners, such as the International Centre for Trade and Sustainable Development (ICTSD). A Trade and Environment Task Force of CEESP members will be established to steer the effort. It will focus on the provision of up-to-date information and policy options, and on action-oriented advice to the IUCN membership".

GETI's original goals were also defined as follows:

- To provide practical and enabling information on trade and investment relevant to IUCN's work programme and membership and thereby enhance and maintain capacity within IUCN to address issues at the intersection of international trade and investment and the Union's mandate;
- To serve as a focal point for a network of individuals both within and outside IUCN;
- To facilitate dialogue between nature conservationists and trade, investment, research and other communities;
- To design and implement joint programmes with relevant partners carrying forward academic and political discussions at the interface of environment, trade and investment;
- To undertake any other activity in accordance with IUCN's mission that the Steering Committee may deem appropriate.

Taking this platform as a starting point, TEM TI expands into several new areas. The first one covers macroeconomic policies which have not received adequate attention in the past. This includes examining and providing advice on issues pertaining to macroeconomic environmental accounting and on the way in which this instrument can be articulated with monetary and fiscal policies which are mainly concerned with short term objectives. The second item here concerns alternative macroeconomic paradigms

and their relationship with long term sustainable development. Finally, TEMTI will also expand into the problem area of the valuation of environmental services. In the following section we describe these problem areas in detail.

II. Problem Areas

In accordance with these objectives, TEMTI must now continue working on three critical problem areas: trade and investment issues and the environment; macroeconomic policies and environmental sustainability; valuation of environmental services and instruments to compensate for these services. It should be noted that although TEMTI as such does not carry out its own research, it is a network comprising individual researchers working on the thematic areas outlined below. TEMTI will continue to encourage research directly relevant to IUCN-CEESP's core mandate, dissemination of high quality research results that improve the quality of debates on trade and environment issues, as well as outreach activities that can improve levels of awareness and improve dialogue between different stakeholders and policy making.

A. Trade, Investment and the Environment

Trade flows are a key driving force behind environmental change. TEMTI must provide relevant information concerning the impact and evolution of the forces unleashed by trade liberalization and their relation to the Union's mandate. Likewise, monitoring international trade negotiations, both at the global and regional levels, is a critical task for TEMTI in order to enable IUCN orient trade negotiators as to the environmental implications of trade agreements. It is also important to recognize that in some cases, trade negotiations appear to gather momentum on their own, feeding upon previous obligations to generate new commitments.

As we all know, in addition to negotiations concerning tariffs and non-tariff trade barriers, the trade agenda has expanded to a series of domains that encompass many other aspects of economic and social policies and have vast environmental implications. Agriculture, intellectual property, services, government procurement, non-agricultural products market access, sanitary and phytosanitary measures and investment are some of the most prominent chapters of trade negotiations. When the agreements behind these negotiations are finally implemented, powerful economic forces are unleashed and changes in economic structures take place. Most of the time, these changes entail significant impacts on different components of the environment. TEMTI must maintain a close and timely watch on developments in trade negotiations as they unfold in order to play a constructive role in the design of policy instruments that can prevent negative environmental effects and provide adequate redress mechanisms. Also, this is an essential part of our task as the relations between trade and multilateral environmental agreements become stronger and more intricate. In particular, the information and analyses at this level will be useful in maintaining the integrity of multilateral environmental agreements vis-à-vis trade arrangements.

The analysis of trade flow patterns is important and should be promoted. It reveals the direction of substantive underlying trends that have direct and indirect environmental impacts. For example, it can show how a poor country can be ensnared in a low productivity trap as it depends increasingly on primary products' exports. As terms of trade (i.e., the ratio of prices of its exports and imports) for most primary products deteriorate following their normal long term trend, the country can end up intensifying

its natural resource usage rates beyond the thresholds of sustainability. Understanding these flows is an important aspect of TEMTI's task.

One important aspect that has not received enough attention pertains to the notion of ecological footprints. Although this idea has been used to estimate the environmental impact of economic sectors and branches, it has also been used to examine the structure of international trade flows and its environmental signal. The analysis needs to be refined, but for the purposes of TEMTI's mandate, a thorough investigation of the international trade of environment-intensive goods is highly relevant. The intensity of environmental services embodied in trade flows is a key indicator of long lasting trends that affect habitats, biodiversity, and usage rates of natural resources such as forests, soil and fresh water. The implications for conservation and sustainability are critical and we can play a critical role in promoting this type of analysis.

Public and private sector investments in large infrastructure projects, as well as in the energy sector, communications and extractive industries will also receive special attention. In particular, the impact of these investments on the environment and on communities and indigenous peoples' livelihoods will be a key aspect of TEMTI's priorities.

Direct foreign investment (FDI) flows are part and parcel of international economic integration and they need to be considered in the context of environmental changes. Together, trade and investment flows are one of the most important factors shaping economic structures at the world level. They affect extractive and manufacturing industries, as well as agriculture and services. As such, the economic forces associated to trade and investment flows are one of the main primary factors behind environmental change. They are directly related to natural resource usage rates, habitat modification, changes in ecological footprints and overall rates of environmental transformation. Their study and monitoring is highly relevant to the Union's mandate. TEMTI will continue to eagerly pursue this task.

Priorities:

1. Analysis of trade flows
2. Monitoring and assessment of current and future trade negotiations
3. Analysis of ecological footprints through international trade flows of environment-intensive goods
4. Promotion of sustainable agriculture and food sovereignty

B. Macroeconomic Policies and Environmental Change

Trade liberalization is just a part of a broader set of policies at the macroeconomic level. Monetary and fiscal policies are the two main components of this policy package. Monetary and fiscal policies are critical for growth rates and for shaping structural transformations in economic systems. In fact, it is frequently impossible to understand how trade liberalization is implemented and what its repercussions are (or will be) without adequate analysis of the macroeconomic framework in which it is operating.

The importance of these policies is widely recognized as being determinant for environmental change, but they have received scant attention. This is perhaps due to the current state of debates in macroeconomics, a discipline that is in a state of flux.

However, if at the theoretical level the discussion concerning the main components of macroeconomic systems appears to be untidy, at the level of applied macroeconomics it is clear that interest and exchange rates, credit policy and the structure of fiscal accounts are critical determinants of how economic systems operate. For example, the thorny question of subsidies depends on how fiscal policy and, in particular, public expenditures are managed in a given economy. In fact, in many instances in developing countries, trade liberalization has proceeded as a means to reduce subsidies through the restructuring of producers considered to be “inefficient”. However, when critical environmental services (for example, maintaining and developing crop biodiversity) are factored into the analysis, the purported inefficiencies disappear. Fiscal policy has failed systematically to recognize this and TEMTI can make an important contribution by bringing these important issues to the forefront of policy analysis.

Changes in the evolution of key macroeconomic variables, such as the general price level, the rate of unemployment or the fiscal balance, provide the fundamental background for the way in which trade liberalization affects economic structures. From this perspective, it is clear that the effects of trade liberalization depend on how these macroeconomic variables operate and interact.

It is important to observe that macroeconomic policies aimed primarily at the control of inflationary pressures involve a countercyclical stimulus in the economy. It is not difficult to find examples where this has contributed to greater inequality and even poverty through greater unemployment. For many communities the double impact of trade liberalization and tight macroeconomic policies has led to a weakening of their capacity to maintain adequate conservation of ecosystems’ integrity and development of crop biodiversity. As social institutions become weaker, production and survival strategies are transformed, sustainable resource management practices are abandoned, and negative impacts on soil erosion, depletion of aquifers, and loss of biodiversity are felt in surrounding ecosystems. Thus, the evolution of macroeconomic policies has a significant environmental impact through a long chain of events. The length of this series of linkages should not mislead anyone into believing that macroeconomic policies are environmentally-neutral.

The inter phase between trade liberalization and macroeconomics is stronger when it comes to financial liberalization. Capital account deregulation that opens doors to unrestricted capital flows has critical implications for macroeconomic policies. The most important one is that the capacity to implement an independent monetary and fiscal policy is conditioned by full capital mobility.

Financial and trade liberalization have in many cases marched together and are normally present in trade agreements. It is difficult in today’s global economy to think of them separately. The importance of financial flows, however, overshadows trade of goods and services. As the system of fixed exchange rates was abandoned during the seventies, the arbitrage opportunities of capital flows greatly increased. This is why foreign currency transactions increased at exponential rates and today, according to the Bank for International Settlements, more than 1.3 billion dollars are traded daily in foreign exchange markets. This is more than 75 times greater than the value of global international trade. The impact on macroeconomic policies of the world’s most important economies is of great significance and although the chain of causality is long and complex, the effects on producers and on the environment are noteworthy.

At a deeper level, TEMTI must start work on some critical issues that will affect sustainability in the long run. Particularly important is the issue of economic growth dynamics and human welfare. Current applied macroeconomics appears to be divided between practitioners dedicated to macroeconomic stability and those committed to growth. The first set believes growth will come once inflation and volatility are controlled; the second group prefers to think socially tolerable inflation rates are compatible with healthy economic growth associated with welfare gains. In any event, this polarized vision, in which stability is contrasted with welfare, does not seem to be the best way to think about choices in macroeconomic policymaking because the whole issue of sustainability is left aside.

One of the central questions here pertains to the ability of economic systems to generate quality jobs *without* growth, a macroeconomics question that deserves attention, not only from a theoretical perspective, but mainly from the vantage point of applied economics and sustainability. The instruments required to attain a non-environmental degradation growth rate (NEDGRO) is another critical problem area that requires urgent attention. This type of problem is also closely related to the development of accurate so-called green national accounts that take into account the full cost of natural capital depletion. New financial and funding paradigms need to be explored if progress is to be made in this area. In a deeper sense, TEMTI can play a leading role in promoting advanced theoretical and applied research on macroeconomics for sustainability. TEMTI must intensify its involvement in the discussion of these important issues as part of its contribution to IUCN.

Priorities:

1. Analysis of the effects of monetary and fiscal policies and their long term implications for social responsibility and environmental stewardship
2. Monitoring of trends in international capital flows and their effects on policy making and environmental stewardship
3. Analysis of alternative macroeconomic paradigms that are compatible with long term sustainability and increased human welfare

C. Valuation of Environmental Services

For many IUCN member organizations questions related to the value of environmental services is a critical issue. The importance of this question is not merely academic, but an urgent day to day problem. For example, determining the value of environmental services is of great significance in efforts of communities to convince policy makers about specific measures regarding the preservation of biodiversity and the development of crop biodiversity. Valuation of environmental services is required in cases where markets are incapable of allocating an explicit pecuniary value to environmental services.

The valuation of environmental services does not necessarily mean that all environmental services and ecosystems' components *must* have a price attached to them. In many cases, the value of ecosystem services (and of ecosystems themselves) is incalculable because they lie in a space that is not amenable to price-setting. For example, in cases where species' extinctions and conservation of pristine habitats are at stake assigning a price can be a meaningless exercise. In spite of this, in many instances

the urge to deregulate protection of ecosystems is misguided by faulty economic analysis that imputes prices on things that are extremely valuable but priceless. Through a seemingly objective methodology that will underestimate the value of ecosystems, prices are imputed and compared with the cost of conservation or the economic benefits of deregulating. The end result is that wetlands, primary forests and public lands are opened to economic exploitation at great environmental costs and with weakened regulatory schemes. GETI must continue to promote work on these aspects of the valuation of ecosystem through rigorous scientific debate.

There are two different problems related to valuation of environmental services. The first is the precise determination of the value of these services. This is a difficult challenge and there are different methods to approach it. Some well known techniques of valuation are through revealed preferences and imputed willingness to pay. In each category there are different methods that have their own merits and drawbacks. Careful analysis of their applicability and advantages is required before they are used in specific instances. In most cases, implementation requires data gathering.

The second problem is related to the procedure through which value is channeled to the communities in charge of the environmental services. There are many ways in which this can be accomplished, but most cases will fall into one of two categories: market prices or subsidies. When values can be determined through some of the methods mentioned above, markets may be useful to allocate pecuniary resources to the communities responsible for delivering the environmental services. In many other cases, however, this may not be possible and a direct subsidy may be the only device to carry out the desired allocation of pecuniary compensation. Once again, advantages and drawbacks need to be assessed carefully.

There are different reasons why the value of environmental services has or should be determined and allocated accordingly. One of them is to ensure that communities and stakeholders directly or indirectly in charge of the stewardship of the ecosystems providing these environmental services receive the fair share of their contribution. This is an equity or ethical issue. Ensuring adequate compensation for communities that are under economic pressure can go a long way in redressing social injustice and guaranteeing the continuation of the stewardship of these resources.

TEMTI will continue to work on all of these issues, identifying ways and means to determine values, as well as determining the appropriate channels for the corresponding allocation of pecuniary compensations. It must be pointed out that the specific circumstances that surround each individual problem must be taken into account in order to carry out these tasks.

Priorities:

1. Analysis of various tools and methods to determine prices of ecosystem services
2. Promoting direct dialogue between communities, stakeholders and policy makers concerning prices and allocation mechanisms for compensation
3. Analysis of cases where markets and price determination of ecosystems' services is not the best way to allocate compensation

4. Study of cases in which cost benefit analyses are misleading and should be replaced by other ways to arrive at decisions concerning ecosystems of great value that are priceless

D. Sector Level Policies

Sector level policies for sustainable agriculture and for energy transition will also remain key priorities for TEMTI. Sustainable agriculture is especially in the realm of sustainable agriculture will also remain important priorities for TEMTI. Sustainable agriculture

Conservation agriculture (CA) aims to make better use of agricultural resources through the integrated management of available soil, water and biological resources, combined with limited external inputs. It contributes to environmental conservation and to sustainable agricultural production by maintaining a permanent or semi-permanent organic soil cover. Zero or minimum tillage, direct seeding and a varied crop rotation are important elements of CA.

Adoption of CA at the farm level is associated with lower labour and farm-power inputs, more stable yields and improved soil nutrient exchange capacity. Crop production profitability under CA tends to increase over time relative to conventional agriculture. Other benefits attributed to CA at the watershed level relate to more regular surface hydrology and reduced sediment loads in surface water. At the global level, CA sequesters carbon, thereby decreasing CO₂ in the atmosphere and helping to dampen climate change. It also conserves soil and terrestrial biodiversity.

CA has emerged as an alternative to conventional agriculture as a result of losses in soil productivity due to soil degradation (e.g. erosion and compaction). CA aims to reduce soil degradation through several practices that minimize the alteration of soil composition and structure and any effects upon natural biodiversity. In general, CA includes any practice that reduces, changes or eliminates soil tillage and avoids the burning of residue in order to maintain adequate surface cover throughout the year (ECAAF, 2001). In contrast, conventional forms of agriculture regularly use ploughs to enable a deep tilling of the soil (FAO, 2001). The line between conventional and CA often blurs as conventional agriculture utilizes many practices typical of CA, such as minimum or no-tillage. Hence, the differentiating feature of CA and conventional agriculture is the mind-set of the farmer. The conventional farmer believes that tilling the soil will provide benefits to the farm and would increase tillage if economically possible. On the other hand, the conservation farmer questions the necessity of tillage in the first place and feels uncomfortable when tillage occurs.

Sustainable agriculture integrates three main goals--environmental health, economic profitability, and social and economic equity. A variety of philosophies, policies and practices have contributed to these goals. People in many different capacities, from farmers to consumers, have shared this vision and contributed to it. Despite the diversity of people and perspectives, the following themes commonly weave through definitions of sustainable agriculture.

Sustainability rests on the principle that we must meet the needs of the present without compromising the ability of future generations to meet their own needs. Therefore, stewardship of both natural and human resources is of prime importance. Stewardship of human resources includes consideration of social responsibilities such as working and living conditions of laborers, the needs of rural communities, and consumer health and safety both in the present and the future. Stewardship of land and natural resources involves maintaining or enhancing this vital resource base for the long term.

A systems perspective is essential to understanding sustainability. The system is envisioned in its broadest sense, from the individual farm, to the local ecosystem, and to communities affected by this farming system both locally and globally. An emphasis on the system allows a larger and more thorough view of the consequences of farming practices on both human communities and the environment. A systems approach gives us the tools to explore the interconnections between farming and other aspects of our environment.

A systems approach also implies interdisciplinary efforts in research and education. This requires not only the input of researchers from various disciplines, but also farmers, farmworkers, consumers, policymakers and others.

Making the transition to sustainable agriculture is a process. For farmers, the transition to sustainable agriculture normally requires a series of small, realistic steps. Family economics and personal goals influence how fast or how far participants can go in the transition. It is important to realize that each small decision can make a difference and contribute to advancing the entire system further on the "sustainable agriculture continuum." The key to moving forward is the will to take the next step.

III. Organization

In order to achieve its goals, TEMTI is an organization that relies on its network of researchers and activists. Its resilience and versatility stem directly from the network and not from any single organization or individual. The strength and commitment of its members is its most important asset. This is why the network has to be as tightly knit as possible through projects and the participation of its member organizations and individuals in outreach activities. Also, the network must be reinforced and renewed in order to include as many groups of researchers and civil society organizations engaging in activities relevant to TEMTI's mandate. To achieve this, TEMTI must have a focal point that serves as a permanent center of reference, coordinates current work and establishes plans for the future development of the organization. Without this, the network cannot fulfill its objectives.

The tasks of the Steering Committee include organizing, consolidating and leading the network of the Group's members in each of the core areas. The organization of the Group's network will gravitate around action-oriented research, outreach and advisory activities. Research by network members on topics directly relevant to the Union's agenda will be promoted and supported by the Steering Committee in all possible ways. Because the Union's agenda is defined at a global scale, there is a clear need for

multinational collaborative research; TEMTI will promote this type of work between its members. In doing this, TEMTI may rely on the capacity of IUCN member organizations to mobilize individuals and research groups into single coherent research teams operating on the same type of problem in different countries.

Results from this research, as well as from other projects and activities of TEMTI members, will be disseminated through various channels, including conferences, publications and interactive DVD's when required and feasible. Outreach activities need to be oriented to stakeholders and policy makers through workshops, seminars, high-visibility international conferences, and publications.

A very important part of our work is to strengthen links with all Union Commissions through joint projects. TEMTI must act decisively to increase awareness of IUCN members concerning the importance of economic and social forces that are driving environmental change at the local, regional and global levels. More interaction between TEMTI and the Union's commissions is required and will take place as the new work plan is approved. One key avenue for this interaction is through face to face meetings between members of TEMTI's steering committee and members of those commissions. Another possibility that needs to be actively explored is through the participation of steering committee members of the Species Survival and the World Commission on Protected Areas Commissions in events organized by TEMTI or during its own steering committee meeting.

IV. Strategies and Instruments

TEMTI does not carry out its own research. Its members are engaged in research, policy making and civil organizations. As outlined above, multinational collaborative research needs to be carried out by TEMTI's members and a permanent task of the steering committee is to design and launch research projects as soon as possible through appropriate partners within the Group. One of the tasks of the steering committee will be to identify suitable sources of funding for these collaborative research projects.

Collaboration with Bridges and ICTSD needs to be maintained and reinforced. This is an invaluable tool that helps members of the group and others keep abreast of the pace and evolution of current and future trade negotiations. But TEMTI must also launch a strong campaign of publications through a series of working papers and short policy commentaries that can be downloaded through its new web page specially dedicated to cater to IUCN's needs. This dedicated web page is one of the top priorities given its potential for information dissemination and for interactive work between TEMTI members and other organizations. It is clear that through its new web page TEMTI can identify new groups and needs within IUCN that can be met through our work.

TEMTI must maintain and strengthen its work within IUCN in order to enhance the Union's capabilities in all areas. This must be done, as pointed out above, through work with the individual commissions as well as with the Secretariat. This part of TEMTI's work can be driven through specific demands received from IUCN members, but it should also be part of a proactive campaign to provide advice on critical emerging issues that have serious implications for IUCN's mandate. It is especially important in this context to note that the most important environmental and conservation issue of our times, climate change, needs to be addressed from the perspective of IUCN. TEMTI needs to explore the possibility of including a new problem area within its mandate

related to climate change, vulnerability, mitigation and adaptation. These issues fall within the mandate of Working Group III of the Intergovernmental Panel on Climate Change (IPCC) but have not been adequately addressed to cover the trade and macroeconomic perspective.

TEMTI must strive to engage in a new and stronger dialogue with policymakers and corporate sector actors. This dialogue can take place in several venues, including active participation of policymakers and private sector agents in workshops and round tables, and through our interactive web page. These initiatives must be carried out in relation to the programs and priorities of IUCN, but they also can help explore new territories where the Union's interests are involved.