

**Green Economy -  
Meeting seeks Financial Mechanisms for Conservation,  
Environmental Services Win the Market Over**

By Claudio Angelo  
Special envoy to Teresopolis, RJ, Brazil

Capitalism has never been so wild – in the good sense of the word. The planet is witnessing the beginnings of a market where dollars are traded for a quantity of animals in a forest, for carbon that plants take in as they grow or for water that forests help keep clean. This market for environmental services, as it is being called, is not the product of delirious eco-Shiites. Its prophets are mainstream economists and scientists from important institutions such as the World Bank, Stanford University in the United States, and the research non-governmental organization WRI (World Resources Institute). The mechanisms through which these services acquire trade value are also not magic: the principle behind it all is the most important law of economics: supply and demand. “Things like biodiversity are becoming more rare as time goes by. It makes sense that they be paid for”, says James Shields of State Forests, a public company that manages the forests in New South Wales, Australia.

If you think this statement is an exaggeration, here is a piece of data to consider: the state of New York (USA) invested US\$1 billion in a forest conservation project in the Catskill Mountains. In doing so, the local government hopes to save up to US\$6 billion in water treatment facilities. The watersheds in these mountains are the main source of water for the state, and the forests around them protect these watersheds against pollution. Along the same lines, the people living in the city of Piracicaba in the state of Sao Paulo already pay one additional cent in their water bills. The money funds the rehabilitation of the forest area surrounding the Capivari River.

“We are finding that the sustainable management of watersheds can be less costly,” says Nels Johnson of WRI. Johnson is part of a group of 50 specialists that have been meeting every six months since May of 2000 to accelerate the creation of market based instruments for environmental services. The Katoomba Group (organized by the American nongovernmental organization Forest Trends) held its third meeting last weekend in Teresopolis, RJ, Brazil.

*Expanding Markets*

Although it may still be difficult to define exactly what an environmental service is (see list of main forest services in the box below), the participants of the Katoomba Group believe that the market potential is high. One study presented during the meeting by economist Joshua Bishop of IIED (International Institute for the Environment and Development), shows that there are 180 projects around the world today that market these services, 137 of which have already been funded.

The money comes from investment funds, automobile companies and governments. Costa Rica, for example, funds the conservation of its forests by imposing

a tax on fossil fuels. This tax generates US\$100 monthly per hectare for each forestland owner. "This is double what they would make raising cattle," says Luis Gamez from the Ministry of the Environment in Costa Rica.

Last year in Australia, a company called Earth Sanctuaries, Ltd. became the first biodiversity company to be listed in a stock exchange. Its "business" is to recover fauna and flora in degraded areas and to charge visiting fees to these areas. Its owner, John Wamsley, famous for sporting a hat made of cat skin - an exotic animal that almost devastated the local wildlife after being introduced in Australia - was able to get a law passed that allows wild animals to be counted as assets (valued at US\$24 million).

Insurance companies are also interested in investing in conservation. The Englishman Phil Cottle of Partner Re looks for forest products companies interested in forest insurance. The only prerequisite for this insurance (whose premiums today are modest, US\$70 million) is having the seal of approval from the FSC (Forest Stewardship Council). "People say that forest insurance in the Amazon against fire would not work because it rains a lot. Well, then, I would think about landslides," he says.

### *Beyond Kyoto*

The environmental market does not only live on water and biodiversity. In spite of the breakdown of the Kyoto Protocol negotiations (an international agreement buried last Wednesday by President George Bush), carbon has never been closer to becoming a commodity. Notwithstanding the lack of government mechanisms, trading the so-called carbon credits (read text on page 23) is being implemented from the bottom up by the "invisible hand" of economics.

"The market does not in any way depend on Kyoto in order to function", says economist Antonio Bueno of the Futures Exchange of Sao Paulo. The World Bank's Carbon Prototype Fund is one of the main instruments of this early trading. According to the fund's manager, Kenneth Newcombe, by mid 2002 the fund hopes to reach US\$34 million invested in projects for alternative energy and carbon sinks. One of these projects is Plantar of Minas Gerais, which plants eucalyptus to produce charcoal. "Actions taken early on may one day be recognized in a future protocol," stated Newcombe. Also interested in the Brazilian market of emission reduction is Environmental Financial Products, an American company that already provides consulting services to three carbon credit projects in the states of Parana, Amapa and Amazonas.

In spite of all the optimism, the market for environmental services is still green - in the bad sense. For example, there are no standards to measure carbon sequestration. The connection between forests and watersheds is still unknown to science. At least for now, supply outweighs demand. And the Katoomba Group has not yet discovered what the relationship between the consumer and these services will be.

"Forest products such as heart of palm are some of the things consumers will pay for more readily," says Patricia Moles of A2R, the only administrator of environmental funds in Brazil. "Environmental services are still an abstract part of the business."