

# Leaving the Oil in the Ground A Political, Economic and Ecological Initiative in the Ecuadorian Amazon

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The government of Ecuador has presented a novel proposal to not exploit the oil reserves of the Yasuní National Park. The economic benefits of exporting crude oil are limited compared to the social, economic, and environmental costs of extracting oil from the Amazon, with its enormous ecological and cultural diversity.

This initiative is the first post-oil development proposal, a precursor of a condition that will be inevitable for many countries in the near future. Moreover, this proposal is in line with the new Ecuadorian Constitution that recognizes the rights of nature and seeks to use available economic instruments to fulfill a mandate of “Buen Vivir” or “Good Living.”

The proposal is called the Ishpingo, Tambococha, and Tiputini (ITT) Initiative, in reference to the corridor of oil reserves located within the Yasuní Park. The initiative is a bold effort to protect the Amazon environment and its inhabitants and to find innovative alternatives to traditional extractive development based on the export of raw materials.

The Ministry of Energy and Mines launched the initiative in 2007. It soon sparked international interest and a lively debate began over how to implement it and where to find the resources to carry out the measure.

The initiative constitutes a clean break from the past environmental history of Ecuador and seeks to become an exemplary measure for confronting climate change by moving beyond discourse unmatched by viable proposals. The initiative calls into question the logic of extractive development based on primary products and exportation, and accepts the goal of “*sumak kawsay*,” or “good living.” It embodies a deep respect for the natural environment and the cultural choices of the indigenous peoples in voluntary isolation that still inhabit Ecuadorian territory.

The initiative caused controversy when presented as an alternative to the model of development based on the export of raw materials. But the economic crisis of 2008 exposed the failure of the old model and the risks for economies like Ecuador’s. Today we clearly see the need to

seek new paths. The ITT Initiative offers new ways to think about collectively building a post-petroleum economy and continues with a task that began in Ecuador many years ago.

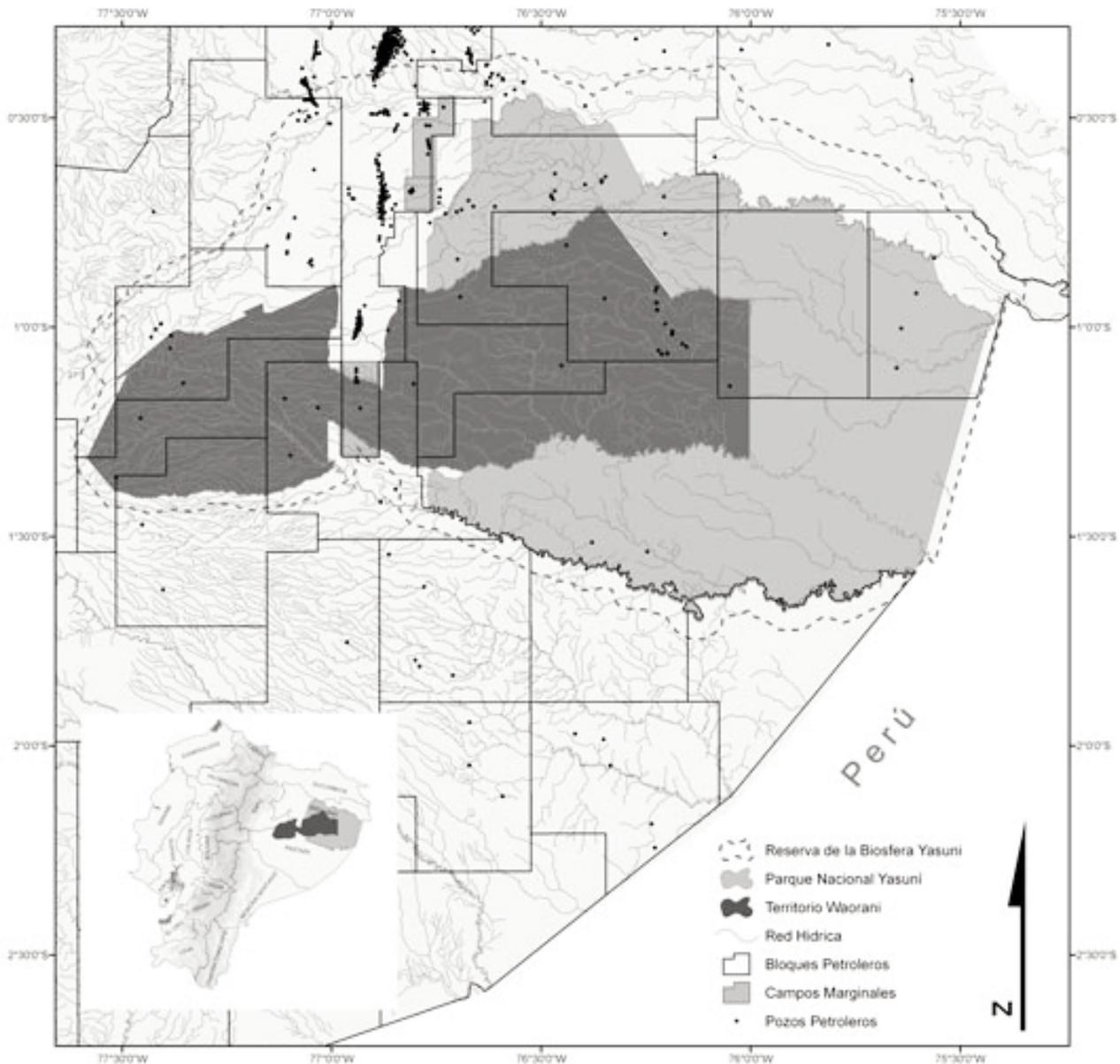
The ITT Initiative aims to avoid the exploitation of fossil fuels in areas of high biological and cultural sensitivity to protect the biodiversity of the Amazon and the ecological processes it sustains. At the same time, it also seeks to take advantage of a changing international context where new policies on energy and environment are being debated, offering new possibilities to consolidate Ecuador’s political leadership on these issues at a global level.

Two years have passed since the public presentation of this initiative and the means and instruments to carry it out still have not been clarified or agreed on. It is vitally important to contribute to the process through careful analysis.

This document is an exercise in civil society dialogue. The authors have thought deeply about the issues and do not necessarily agree on all matters, but they joined together to put forward ideas that are backed by a certain degree of consensus. Our aim is to encourage more dialogue so that even greater detail may emerge. This collectively authored document is in itself an example of good practice in demonstrating that sound environmental management based on diverse views is indeed possible.

The over-arching conclusion is that there are solid arguments in support of the ITT Initiative. They include protection of human communities in the area, the ecological relevance of conserving the park’s extraordinary biodiversity, its contribution to mitigating global climate change, and the exemplary role of the initiative as a model for post-oil development that frees the nation from dependence on extractive industries. Consequently, the ITT Initiative must





Map of the Yasuni region of the Ecuadorian Amazon, identifying protected areas, concessions and petroleum sites. Location in Ecuador in lower left hand corner.

be seen as a public policy, and the political implications of the initiative must be thoroughly considered.

The ITT Initiative requires an economic-financial component. This document analyzes several aspects in this area. However, the difficulty in establishing these components cannot be used as an excuse for inaction. There are various options available that respond to varying concepts of economic contributions. There is more than one path in the search for economic contributions, which should be understood as means of supporting the initiative,

but not as essential prerequisites. Finally, the design of these mechanisms and the defense of the initiative require renewed and strong promotion from the Ecuadorian government and the international community—both regionally among Amazonian countries and globally.

## Reactions

Yasuni National Park was created in 1979. The ITT reserves are situated in the northeastern section of the park, which now occupies an area of 982,000 hectares.<sup>1</sup>

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Yasuní receives the least funding per hectare in the Ecuadorian park system and has the smallest staff of all of the protected areas. It is widely considered poorly protected.<sup>2</sup>

The latest estimate of recoverable heavy crude (14.7° API) is 846 million barrels. The oil could be extracted over approximately 13 years, with a production of 107,000 barrels per day from the fifth year onward. Extraction forms part of a larger project that includes a refinery and thermo-electric power plant.

Given the reality of Yasuní, Ecuadorian President Rafael Correa addressed the United Nations in 2007 and launched the ITT Initiative. In summary, the proposal presented was to leave the heavy crude oil reserves underground on the condition that the international community compensate Ecuador for at least half of the income that it would have received if it exploited these reserves. At that point, no consideration was given to the intrinsic difficulties in estimating how much money this would represent. Nonetheless, the message clearly pointed to shared responsibility between Ecuador and the rest of the world.

Immediately following the president's UN address, both support and doubt were voiced. However, by mid-2008, the initiative received a major boost when the German Parliament decided to support it and called on other European Parliaments to do likewise. Germany has since formally pledged financing to implement the proposal. Although the Norwegian government, which finances the largest European fund for reduction of emissions caused by deforestation and environmental deterioration, did not offer support, Norwegian civil society has shown interest in the initiative. Members of the European Parliament, U.S. government agencies, multilateral institutions, and international civil society organizations have also enthusiastically received the initiative. In contrast to the enthusiasm sparked internationally by the initiative, the response in Ecuador has been lukewarm partly due to its limited exposure in the national mass media.

On September 28, 2008 in Ciudad Alfaro, Montecristi, the initiative received national political backing, albeit indirectly. The Ecuadorian electorate approved the newly drafted constitution whose cornerstone is the concept of *sumak kawsay* or *buen vivir*, which in English means "good living." The constitution also recognizes the rights of nature.

As part of a new development vision, the initiative has been accompanied by other proposals put forward by President Correa. For example, during a meeting of the Organization of the Petroleum Exporting Countries (OPEC) in November 2008, Correa proposed a tax on oil exports to finance poverty alleviation and climate change mitigation. Moreover, the government's proposal to reject payment obligations on illegitimate external debt that was presented as a result of a debt audit contributes to reflection on the need to profoundly change international negotiations and advance in models of global justice.

Despite President Correa's enthusiastic presentations of the initiative abroad, the government of Ecuador has not yet formulated a clearly defined strategy and sometimes emits contradictory signals. For example, it is not clear what mechanism would be used to ensure the necessary financing or what political steps would be taken to guide the national economy toward a post-extractive stage of development and to promote the pillars of what should be an international policy to build societies based on environmental justice. But although the initiative might seem at times exceedingly complicated to implement, any ambiguity of purpose could undermine this truly revolutionary initiative.

## **KEY ELEMENTS IN THE CONCEPTUAL FRAMEWORK OF THE ITT INITIATIVE**

### **The General Context Created by the New Constitution**

Ecuador's new constitution converts several key ideas, concepts, and demands directly related to the ITT case into law. The text creates a strong mandate for social justice and the defense of nature. This is expressed especially in the recognition of the rights of nature and in the direct link between the protection of natural resources with a development model conceived as broad-based and oriented toward "good living."

The ITT Initiative clearly follows this logic of social and environmental justice. The decision to protect the area stems from an evaluation on its importance due to its ecological wealth, human communities, and the high social, environmental, and economic costs of oil drilling. The initiative is grounded in viewing a wide range of values when designing and debating public policy, and recognizes that

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the traditional cost/benefit analysis based on market values can no longer be the sole criteria of public policy. In particular, it recognizes that environmental values cannot be separated from social values and that many values are not quantifiable. In accordance with the new constitution, the focus on “good living” must be based on both human rights and the rights of nature.

Recognizing this range of values—esthetic, religious, cultural, environmental, etc.—permits the incorporation of the rights of nature according to the mandates of the constitution. Consequently, decision-making becomes a political process rather than a technical decision based on cost/benefit analysis.

At the same time, the initiative is also a response to shared but differentiated global responsibilities regarding climate change, the preservation of biodiversity, environmental deterioration in general, and the financial crisis.

The initiative is also based on the idea of developing a post-material development strategy, with a post-extractive component based on the reality of a country dependent on oil exports like Ecuador. This demands designing innovative proposals to carry out revolutionary ideas. It requires imaginative financing mechanisms and employing ideas that for many years were rejected or sidelined but are now highly pertinent to the current situation.

## **Reasons Behind the Moratorium on Oil Extraction in Yasuní Park**

Based on the new constitution, the justification for the moratorium can be established on three planes:

### **1) National Reasons**

First, it prevents the disappearance of the Tagaeri, Taromenane, and Oñamenane communities—all members of the Huaorani nation. These communities depend on hunting, gathering, and itinerant agriculture for subsistence. They have survived attacks from other cultures and from Western civilization by settling in interfluvial plains like those of the Yasuní Park. However, the relentless expansion of logging and oil drilling has irreversibly affected most of this population. The Tagaeri, Taromenane, and Oñamenane have opted to live in voluntary isolation, inhabiting the “off-limits” zone in the southern part of the Yasuní.

The environmental significance of the park is indisputable. Oil reserves are located below one of the most biologically diverse areas on the planet, home to some 165 species of mammals, 110 species of amphibians, 72 species of reptiles, 630 species of birds, 1,130 species of trees, and 280 species of vines, in addition to countless species of invertebrates that have yet to be classified.<sup>3</sup> The importance of the park led UNESCO to declare it a World Biosphere Reserve in 1989.

National legislation exists to protect human communities and ecosystems, including the collective rights of indigenous peoples, and laws and regulations on environmental protection and protected areas. The new constitution with the enshrined rights of nature reinforces and expands on the existing legislation.

However, Yasuní Park currently faces dire threats. Observers warn that “Yasuní is on the brink of collapse,” and that the State is not effectively protecting the area due to various ongoing disputes, unclear regulations, and lack of enforcement.<sup>4</sup> This lack of compliance stems in large part from pressures from oil companies. The ITT Initiative moratorium on drilling would be extremely valuable in removing those pressures.

Opening the park up to oil companies would lead to the same processes observed time after time throughout the Amazon—destruction of local communities through the degradation of their environment. Oil exploitation in the region leads in turn to incursions by other interests and effects such as illegal logging, forest fires, and a host of unsuitable agricultural activities.

If all the social costs were charged against the revenues generated by extracting the oil, it is not at all clear that there would be any net benefit to the nation.<sup>5</sup>

### **2) Regional Reasons**

The Yasuní National Park is part of a vast bioregion that is shared with seven other countries (Brazil, Bolivia, Colombia, Guyana, Peru, Suriname, and Venezuela) and one territory (French Guyana). This means that its fate is directly related to the ecosystems of the Amazon tropical jungle. As a shared network of ecosystems, Yasuní is linked to regional biodiversity, climate dynamics, hydraulic cycles, and corridors of fauna and flora throughout the entire Amazon basin.

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As a member of the Andean Community, Ecuador adopted the *Regional Biodiversity Strategy for the Andean Tropical Countries* in July 2002. The strategy has various objectives for the conservation of biodiversity, but is limited by its commercial orientation and should therefore be reviewed by environmental authorities of each country and among all of them before being applied.

Ecuador could assume leadership in the rethinking of the strategy, while serving as a model for other countries in the region to adopt similar measures.

### 3) Global Reasons

The key global contribution of the initiative lies in the fact that keeping the ITT oil reserves underground means that oil will not be burned, consequently avoiding emissions of an estimated 400 million metric tons of carbon dioxide. By not exploiting the oil, the initiative will also prevent deforestation that generates greenhouse gas emissions.

This justification dovetails with Ecuador's international commitments as a Ratified Party to the United Nations Framework Convention on Climate Change and the Convention on Biological Diversity.

## The ITT Initiative as Public Policy

The impact of the ITT Initiative and its relationship to the new constitution make it a public policy, in the same way that health and education are public policies. The initiative should not be cubby-holed as a specifically environmental policy since it also has major repercussions in social and economic areas.

Although the debate has so far focused on obtaining compensation for keeping the oil in the ground, the proposal is essentially political and should be defended and developed as such. It is not a technical issue awaiting technical resolution by economists. Orthodox economic theory does take into account both efficiency and equity, but the latter is always a secondary consideration.

The ITT Initiative is aimed at achieving efficiency by making equity the first priority. The goal is to use the proposal as a platform for actions that build a new model as a way out of the old model with its intrinsic weakness of dependency on the dollar and oil and a means to institute *sumak kawsay* (good living). The proposal is essentially a national strategy; it requires an international component but the

motives and objectives are national. It seeks to establish a new foundation for North-South relations based on justice.

From a political viewpoint, the initiative has been criticized as unrealistic, naïve, or radical. Such accusations must be addressed. For example, Fontaine perceives the initiative as a political issue in which “utopian environmentalism” is pitted against a “nationalist oil policy.”<sup>6</sup>

We reject the characterization of the Yasuní Initiative as “utopian environmentalism” first because although the call to protect the area is among the demands of the citizen ecology movement, it is also a mandate of the state, contained in its laws and its constitution, which means it is a mandate of the Ecuadorian people. The term “utopian” as something not viable or delusional is untimely given the global oil crisis, the inevitable scarcity of fossil fuels, climate change, and the growing socio-environmental costs of extraction. A realistic perspective is to recognize these problems, address them, and seek productive alternatives to oil. If on the other hand what is meant by “utopian” is a horizon to attain, or a means of transcending previous limitations, then the term is applicable.

Second, opposition is not aimed at a “nationalist oil policy.” On the contrary, the Yasuní Initiative recuperates control over these resources, places them in the hands of Ecuador, and avoids the risk of dependency and subordination to transnational oil companies. There is nothing “nationalist” in promoting the degradation of critical habitats or endangering indigenous communities.

The Yasuní Initiative is not only part of a national environmental policy but also a key ingredient of a new national energy policy that includes the oil sector but places it in another context alongside diversified sources of energy.<sup>7</sup>

## The Limits of Nature

Nature has limits that the economy cannot and should not exceed. At the local level, these include the extinction of Amazon species or crude oil pollution such as in the cases of Chevron-Texaco in the Ecuadorian Amazon.<sup>8</sup> Regions also have limits, such as alterations in precipitation patterns and soil compositions. At the global level, the best-known example of the limits of nature is climate change caused by the over-consumption of fossil fuels.

Conventional economics considers all goods and services as tradable elements by granting property rights. This

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model does not recognize limits at all. However, a great deal of evidence has accumulated regarding the consequences of over-use of natural resources and the limited capacity of ecosystems and the planet to absorb the impact. This is a situation caused by the spread of egotistical behavior, incapable of recognizing that a resource has limits or a threshold of collapse.

## **Some Economic-ecological Considerations**

### **1) Limits of the Conventional Economy**

The problem of environmental deterioration in a market economy is that the model does not fully consider external effects in its calculations and it subordinates the interests of future generations and the rights of other species. There is still much ignorance of the value of these considerations, which is not the same as the price. The range of values and the complex functions of ecosystems and species are ignored.

In this context, cost-benefit analysis is not applicable. It tends to give zero value to that which it does not recognize, or utilitarian value to resources that can be exploited, and it has problems in determining a discount rate, or in deciding what timescale to consider. Ironically, this type of analysis applied to a biodiversity hotspot is one of the greatest threats the region faces. Cost-benefit analysis justifies extinction. Many experts have warned of this in Ecuador. For example, Fander Falconí asserted in 2004 that some of the damage caused by oil activity could be measured economically, and therefore be compensated, but others are simply immeasurable.<sup>9</sup>

There is more acceptance of the notion that introducing these other services into the market would mean transferring the responsibility of defining the distributive aspects associated with their uses to the asymmetrical market. This can generate concentration in access to these resources and a consequent loss of sovereignty for the use-populations which have lived sustainably in these ecosystems for millennia.

### **2) The Limits and Possibilities of Economic Compensation**

Much of the debate has focused on the need for “compensation” in exchange for a moratorium on oil drilling. While converting this priority into a non-negotiable

position may have positive aspects, it can also have very negative ones. On the positive side, it is important to recognize that the initiative could ensure much needed revenues for supporting social or environmental policies, and would serve to thwart the opposition of those who view the measure as a sacrifice of the potential profits from exploiting the reserves.

On the negative side, “compensation” would not necessarily safeguard local communities, or protect or restore deteriorated areas that no longer have the capacity to provide sustenance for the population. In other words, enormous sums of money could flow from the international community without resulting in sound and effective environmental and social policies in the Amazon region. The argument in favor of “compensation” depends on trusting the government to fulfill its development commitments to the most vulnerable sectors of the country.

Reducing the matter to a question of possible economic international “compensation” means leaving out other reasons to support the initiative. It also weakens the state in that its capacity for action depends on receiving international funding. Nevertheless, the argument in favor of “compensation” will meet with considerable acceptance both nationally and internationally, as long as Ecuador suffers from extremely high rates of poverty. Many will share the philosophy that ethics has to reflect the state of the system.

Regardless of the international community’s willingness to pay, the conservation of Yasuní is important in and of itself. The demand for economic international compensation cannot be used as an excuse for inaction, but should be seen as an opportunity for national and international action. If the international community fails to comply with obligations to finance sustainable development in Ecuador, it must be seen as a measurable debit, part of the overall environmental debt from North to South. For example, it is possible to measure how much international investment is needed to conserve the Yasuní and the amount of carbon dioxide emissions that will be avoided; the sum of these two values is the starting point for calculating the debt accrued.

Following this line of reasoning, if international compensation is viewed as collaboration rather than a criterion *per se*, then the responsibility for implementing the policy remains with Ecuador and not the international community. The government cannot back down on protecting the



The ecological wealth of the Yasuni region of the Amazon. Owls (*Lophostrix cristata*, Family Strigidae). Biodiversity Station at Tiputini of the USFQ -Yasuni/Ecuador.

area with the excuse that the international community is stingy or insensitive for not having provided financial support. The government must still move forward. It has a responsibility to introduce the central issues of inequality, and environmental and climate justice in political arenas, offering not only critiques but concrete proposals.

Such an approach does not deny the importance of international financial support. The authors view the preservation of the Yasuni as a national public policy that coincides with international policies to reduce carbon dioxide emissions. Therefore, international negotiations and the instruments to take advantage of opportunities for financial support must be adapted to a national mandate and not the reverse wherein the national measures could become dependent on the funding criteria of wealthy countries.

## Climate Change and the Carbon Market

Among the potential options for securing funding for the initiative, discussion has centered on so-called “carbon markets” as a measure to fight climate change. These markets are based on reducing global emissions from industry in industrialized countries through the “purchase” of compensatory measures in southern countries. For example, a new factory in the Netherlands could cancel out the impact

of the emissions it would create by funding a reforestation initiative in a country in the South; the trees planted would have to cover an area large enough to absorb the same amount of carbon dioxide released by the factory. The emission reductions would then be used for the Netherlands to meet their commitments under the Kyoto Protocol.

These types of measures fall under the Clean Development Mechanism (CDM) created by the Kyoto Protocol—an instrument of the United Nations Framework Convention on Climate Change—and a parallel market for the buying and selling of “carbon credits” generated by actions that supposedly sequester carbon in the South, such as the protection of native forests and reforestation.

It can be easily argued that leaving the ITT oil reserves underground prevents the emission of greenhouse gases in the long run and Ecuador should be duly compensated. However, such a mechanism is not included in the Kyoto Protocol. Moreover, the volume of carbon dioxide sequestered depends on the surface area of the forest and so in the case of the Yasuni the contribution would be limited since it does not take into account the ecological contribution of the oil that would not be burned.

In the event that the post-Kyoto framework were to pursue this option, it would be important to keep in mind a number of problems inherent in negotiations on carbon dioxide sequestration. There is considerable controversy about the effectiveness of this strategy. Sound evidence does not exist of a substantial contribution to reducing emissions, because it is not clear how much, if any, carbon dioxide is reduced.<sup>10</sup> The possibility exists of perverse effects or “leakages” in the language of Kyoto, and “second-best” in the language of economics. For example, slashing and burning a primary forest in order to establish a eucalyptus plantation is counterproductive for climate change yet could be considered reforestation under the protocol. The “carbon market,” created as a way to seek a solution to the conflicts caused by climate change, is really a new business built on climate disaster. Polluting industries and profit-driven intermediaries benefit considerably from the “carbon market” despite the fact that there is no real proof of substantial progress in global emissions reduction.

The voluntary carbon market is even more dangerous. Unlike the regulated carbon market which sets a quota for each country, and in turn sets quotas for corporations, the voluntary carbon market is growing with no regulation

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whatsoever. This undermines the development of binding policies to control emissions in specific countries and curtails the development of adequate environmental policies, which are crucial for confronting growing environmental problems.

The current international framework for “carbon markets” includes a condition that limits the applicability of the ITT Initiative: “carbon credits” only apply to offset emissions of industrialized countries and countries in transition, but do not apply to the source of the fuel that is burned. Once oil is extracted, it can be consumed in any part of the world, so there is no way to state that it will reduce emissions in any particular country. The current mechanisms are based on specific sites such as factories or sanitary landfills. There is no global accounting on the use of fuels, nor are negotiations underway to establish limits on fuel consumption as a way to combat climate change. Despite these limitations, international negotiations, especially with regard to climate change, offer a number of opportunities, which are discussed below.

## **POSSIBLE PATHS TO IMPLEMENT THE INITIATIVE**

Successful implementation of the ITT Initiative requires defining it as a public policy and identifying the means and instruments to make it viable. Many options are available for implementing the initiative and the selection of various options permits a diversification of support. The challenge is ensuring that the various financing instruments are complementary and, should one or more fail, others could fill the void.

### **1) Supporting Legislation and Regulation**

The preservation of Yasuní National Park is a constitutional mandate that warrants national public policy. It requires harmonizing old legislation with the new constitution and filling in gaps in existing legislation. The upcoming environmental law should encourage preservation of the Yasuní and not create obstacles to the initiative.

### **2) Financial Support**

Financial instruments should be viewed as contributory mechanisms that strengthen the political mandate. Here are various options that are complementary:

- The creation of a government fund for protection of the area that would function the same way that government budgetary allocations for other public policies such as health and education function;
- Extraordinary funds aimed at compensating or counterbalancing the resources not generated by the commercial exploitation of the ITT reserves;
- Funds obtained through bilateral and multilateral international cooperation, and from private donors.

### **3) New Approaches to International Negotiation**

International financing is necessary to strengthen the constitutional mandate. In general, this requires actions in the framework of the Amazon Cooperation Treaty—of which Ecuador is a member—in South American regional forums, and on the global level where discussions of climate change take place. The support should be aimed at a moratorium on oil drilling on the basis of global accounting measures, which are not currently under discussion for the energy sector. The measure would require coordination with other Latin American countries and delicate negotiations in the framework of the G77 + China. The possibilities outlined here are not exhaustive and hopefully new ones will emerge as a result of the discussion.

The state should administer the funds involved in the ITT Initiative to keep the oil underground, rather than transferring management to national or foreign private entities. The initiative is first and foremost an Ecuadorian matter, aimed at protecting the peoples living in voluntary isolation and the biodiversity of the area. Nevertheless, it is also a matter of international importance. Viewed from this perspective, co-responsibility falls on the wealthy nations, who are directly responsible for the lion’s share of carbon dioxide emissions.

## **Financing**

The fund could draw on various sources that can be grouped into three headings:

### **External Funds:**

- Contributions from the United Nations system and multilateral development banks (e.g., the Global Environmental Facility Bank)
- Contributions from bilateral or multilateral cooperation (e.g., Germany or groups of countries)

- Contributions from individuals, civil society organizations, companies, etc.
- Funds that could be created under international mechanisms in the framework of the next climate change protocol (post-Kyoto) and include both the oil underground and the standing forests.

#### **Funds generated by a global taxation system:**

- Ecotax

#### **Funds from within Ecuador:**

- Restructuring of the foreign debt through the issue of a special bond
- Issuing of “SUCREs” backed by ITT oil

New mechanisms could also emerge by combining the ones listed above. For example, citizens of the wealthiest nations who contribute to the ITT Fund could receive a tax deduction or credit on their income taxes based on their contribution to reducing the problems stemming from global warming.

The important point is that a variety of financial sources exist that would sustain the initiative and they are complementary rather than mutually exclusive.

### **Mechanisms and Guarantees**

The government of Ecuador would issue non-negotiable certificates (Guarantee Certificates) in exchange for forgoing exploitation of the crude oil reserves in Yasuní National Park. Claims could be filed in the event that the state does not fulfill its commitments and at some future point, extracts the oil. To manage the resources involved, a temporary trust fund could be established until national funds are budgeted to finance sustainable development projects.

All contributors to the ITT Fund must have the assurance that the resources obtained are properly used. Contributors must be certain that they will be reimbursed should the state not fulfill its commitment. In such a case, penalties should be established as guarantees. Should a future Ecuadorian government extract the oil, then the revenues generated should be prioritized for reimbursement through the proceeds. The payments made for not having emitted carbon dioxide would be the responsibility of future governments and could be a strong incentive to respect the guarantees.

### **Administration**

The government will negotiate and administer the funds involved in the ITT Initiative to keep the oil in the ground. It will not pass along responsibilities for conservation, policymaking, or the administration of protected areas to private national or foreign entities.

Administration of the fund should also include the participation of representatives of Amazonian communities, especially those affected by oil industry activity, and delegates from citizen organizations.

The funds should be used first to ensure the environmental and social protection of the Yasuní area, and second to support and promote sustainable undertakings in other areas of the Amazon, from conservation work to actions aimed at environmental restoration due to the impacts of oil exploitation.

The fund must learn from the mistakes of FEIREP (the Fund for Stabilization, Social Investment, and Production and Debt Reduction) that ended up trapped in financial speculation and was aimed almost exclusively at maintaining the servicing of the external and internal public debt.<sup>11</sup>

### **Establishing the Fund**

Determining the amount of resources that should be managed in the fund, or funds, revolves around three possible scenarios:

- It could be defined by the amount needed to implement the measures to protect the environment and safeguard local communities.
- It could correspond to offsetting the revenue that the state would forego by not exploiting the ITT oil reserves, seen by some as a form of “compensation.”
- The fund could be viewed in a broader sense, defined by the amount necessary to provide the country with more environmentally friendly infrastructure sufficient to help it through the bottleneck of a carbon economy until it can be categorized as one of the countries with a high ranking on the UNDP Human Development Index.

The first option is rather simple, since it involves assuring the funds needed to, for example, maintain the protected area, pay park rangers, etc., and to cover the needs of local communities.

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The second option is more complex. On the one hand, there could be debate on how much of lost income to request: half of the oil revenues expected by the state? More than half? Or a smaller amount? Another question is: what are the criteria for demanding 50% of expected revenues, and not, for example, 75% or 25%?

The third option is the most realistic for guaranteeing that Yasuni will never be exploited for its natural resources.

However, calculating the reference value of the expected income from exploiting the reserves is extremely complicated. It must be decided whether only the potential income from commercialization will be considered; the way in which needed investments for the extraction of crude oil are factored in or not (like an electrical generating plant in the middle of the Amazon); and also the reference price of the oil.

A fall in the price of crude oil on international markets would determine a reduction from \$11 billion dollars in expected revenues (some \$847 million annually) to \$1.29 billion (around \$99 million annually), calculated on the basis of a price per barrel of WTI crude (much lighter than the ITT reserves) of \$40.9 on December 22, 2008. This aspect is further evidence of the limitations of conditioning the initiative solely on economic compensation calculated on the basis of expected income, since this appraisal would shift with the ups and downs of international oil prices, and could turn into an exercise ripe for speculative activities.

## **Restructuring the Foreign Debt through Special Bonds**

Restructuring the foreign debt of Ecuador to convert it into special government bonds has tremendous implications for the initiative. The bonds could cease to be debt instruments as long as the Ecuadorian government leaves the oil underground. As a security mechanism, in the event that the oil is extracted at some point in the future, the special bonds would be converted back into classic debt bonds. The proposal would be a tool for political negotiations to not pay back illegitimate debts while recognizing the legitimate ones.

The restructuring could be a very flexible and important mechanism that could lead to considerable contributions to the ITT Fund, since funds from the state budget that were formerly used to service the debt would be freed up.

However, the terms of the restructuring should be considered with caution.

A debt swap tends to recognize as legitimate the portion of the foreign debt being restructured which may indeed have been illegitimate. Recall that the issuance of global bonds was fraught with illegalities, which means that restructuring this type of debt would give them legitimacy.

If restructuring were successful, it in turn could lead to broader and more ambitious agreements. As a complement to the ITT Initiative, an agreement could be signed with Ecuador's bilateral and multilateral creditors to suspend the servicing of all bilateral and multilateral debts, in return for a commitment to declare a moratorium on oil extraction in the entire southern region of the country, in addition to the ITT reserves.

## **Ecotax**

In 2008, President Correa proposed a tax on every barrel of oil exported from OPEC member countries. The funds raised would be used to finance conversion to other energy sources and to protect fragile ecosystems—of which Yasuni is a perfect example—from oil drilling. The tax proposal has become known as the Daly-Correa Tax in recognition of the two economists who launched it: Professor Herman Daly for developing the theoretical concept and Rafael Correa for contextualizing it into national politics. Carlos Minc, the minister of the Environment in Brazil, has also made a similar proposal to the member countries of the Group of the Eight (G8) in April 2009: a 10% tax on oil industry profits to provide funds for developing countries to combat climate change.

The ecotax would entail an additional cost for the countries that import the most oil, and also bear the greatest responsibility for climate change. Introductory economics may serve us well. From the “law of demand,” one deduces that had the OPEC oil cartel not been created in the 1960s with its induced reduction in the quantity of oil transacted, climate change would have been accelerated. Unintentionally, OPEC served as a brake in the carbon dioxide emissions. The funds gathered through the ecotax would be independently managed by the OPEC member countries. They could be used for projects to support poor countries that do not have oil reserves, in the framework of a global energy solidarity initiative. The revenue received by Ecuador through this tax could be channeled directly to the ITT Initiative.

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However, the proposal could be watered down by the fact that OPEC fixes prices within an elastic band based on global demand for oil. That means that in the end much of the tax will fall on the shoulders of the exporting countries, making it more difficult for them to accept it. For this reason, the viability of this option depends on both oil-exporting countries and the oil-importing countries, especially the large ones like the United States, Japan, and European countries. These latter countries will need to accept that part of the final price of oil will be destined to funds like the ITT Initiative.

## **Emission of “SUCREs” backed by the ITT**

Discussions have begun in Latin America on the creation of the Single Unit of Regional Compensation (SUCRE) through the creation of the Bank of the South and a Southern Stabilization Fund. A common currency would facilitate trade within the region and spur a progressive de-dollarization of interregional trade and financial relations. The SUCRE could pave the way toward a regional monetary and financial system with its own financial code.

The ITT Initiative could be a form of backing up this system. In the case of Ecuador, the common currency would be backed by the crude oil reserves in Yasuní National Park and the reserves would play a similar role to gold in the past, as a backing for national currencies. It is important to stress here that this would not imply the granting of land titles on the reserves, since it is based on the idea of not exploiting them.

## **International Negotiations**

Many facets of the ITT Initiative require that Ecuador assume leadership in international negotiations. The fact that the initiative is aimed at protecting an Amazonian ecosystem means that support and coordination should be sought with the other member countries of the Amazon Cooperation Treaty Organization (ACTO), headquartered in Brazil. The treaty, signed by Ecuador and the other Amazon region countries, is one of the few regional agreements with a specific mandate to protect the Amazon basin’s biodiversity and natural resources.

In the context of ACTO, it is worth considering the case of the Pilot Program to Conserve the Brazilian Rainforest (PPG7), undertaken between the Brazilian government and

the industrialized countries of what was then the Group of Seven (G7). The program, begun in 1992, enjoys the support of a number of countries, especially Germany, and the World Bank, and is a good example of international coordination for the environmental protection of an ecosystem of global importance.<sup>12</sup> This case offers a number of options for Yasuní-ITT, such as establishing a specific similar mechanism for the region, an analogous program for the entire Ecuadorian Amazon, etc. Within the Andean region, the 2002 commitment for the conservation of biodiversity in the Andean Community also constitutes a substantial basis for negotiating support and coordination.

It would also be good politics to present the initiative within the forum of the Union of South American Nations (UNASUR), which addresses energy issues. This forum is more closely allied to a commitment to protect natural resources, whereas in other cases the interests of oil-exporting countries are divided due to those who favor commercialization, or because they want to promote the interests of their national oil companies in entering the Yasuní. We are aware of these differences, but beyond them the important point is that the proposal will have a greater chance of success if it receives the support of as many neighboring countries as possible.

At the international level, the most obvious forum is the Conference of the Parties to the Framework Convention on Climate Change. Heated negotiations are now underway to reach a reformulation of the Kyoto Protocol. As previously discussed, the mechanisms contemplated in the Protocol cannot easily be applied to an initiative like the ITT moratorium, since the commitments for emissions reductions are specifically applied to industrialized countries and countries in transition, and there is no procedure for evaluating and recognizing emissions reductions that stem from suspending oil sales.

Despite these challenges, there is much reason for hope. The political climate of the negotiations has changed in favor of more ambitious commitments. There are also many alternative mechanisms being discussed. A somewhat limited debate has begun on an international agreement to reduce deforestation as a source of global emissions, and the grounds used to back this measure would likely share similarities with the ITT Initiative. An agreement such as this would make it possible to count the contribution made by greenhouse gas emissions that are prevented by not exploiting this oil. Whatever path is

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ultimately chosen, it is important that Ecuador begin presenting formal proposals.

In sum, we perceive the need for a change in the negotiating position of Ecuador. The proposal should not stress the demand for compensation as the main point, nor should it emphasize the “sacrifice” that Ecuador makes to protect the Yasuní. Such a stance is counterproductive, since the justification of the initiative rests on pointing out the environmental importance of the area and of its indigenous groups, which begs the question as to the necessity of compensating a country that is already committed to these goals due to their intrinsic value. In other words, it is not the international community asking Ecuador to make an additional effort, but Ecuador has recognized in its own legislation the enormous importance of the Yasuní region. Prioritization of compensation leaves the impression that countries of the South are only willing to undertake measures to combat climate change if the industrialized nations are willing to pay for those measures.

Ecuador is faced with an opportunity to exercise leadership in international negotiations, but in order to succeed it must abandon the discourse and practices of the past and establish new commitments and agreements that fulfill international obligations.

We are at a time when it is possible to promote and contribute to generating new commitments and accords, preferably binding, to comply with international obligations. This requires that Ecuador’s diplomatic corps play a much more active role in formulating conceptual frameworks and scenarios for application, and that it maintain persistent and energetic participation in international negotiations on climate change. In this regard, the Ecuadorian government should step up its efforts, and the Foreign Ministry should head up the presentation of the ITT Initiative.

Specifically, Ecuador could promote a global focus and national goals for progress toward sustainability that would bring about substantial reductions in greenhouse gas emissions at the Climate Change Summit. Efforts should be focused on the development of indicators for “carbon neutral” countries that would move toward better development indicators. International discussion of the initiative could inspire other countries and serve as an example on sovereign decision-making to overcome dependency, creating conditions for financing similar proposals, and recovering

and enacting principles of shared but differentiated responsibilities.

## Conclusion

This paper hopes to deepen the discussion surrounding the ITT Initiative. We believe that the proposal to keep the oil reserves underground is viable and should be approached as public policy in the broadest sense of the term. The importance of the Yasuní has been argued on many fronts and the new constitution makes protection of the park imperative. Therefore, the question is how to put the constitutional mandate into practice.

At the national level, the initiative embarks on a new path of development based on the concept of “good living.” However, the proposal is also very important at the regional level, since Ecuador is an Amazonian country, and at the global level for its effects on climate change and planetary reserves of biodiversity.

The economic aspects of the initiative are complex, and especially complex is the question of valuation. Although funding will strengthen the possibilities for implementing the initiative, financial questions cannot be used as an excuse for inaction on the necessary public policies.

The Ecuadorian government has clearly established the importance of preserving the area. Therefore, the call for compensation should be understood as a proposal within the framework of international policies aimed at climate justice, rather than a prerequisite for protecting the area. Protection and conservation of the area is already a priority in national legislation. It is also important to point out that Ecuador recognizes the urgent need to promote international actions aimed at combating global problems by creating practical conditions for these efforts in the framework of shared but differentiated responsibilities.

Major efforts should be directed toward visualizing various political and economic options for creating one or several complementary funds, of different origins, such as international agreements that contribute to the objective of leading Ecuador toward *sumak kawsay* and toward a post-oil economy. Therefore, it is crucial to promote practical actions that open the doors to more options for political, international, and financial support.

In these tasks, we understand that it is important that Ecuador play an active role in international negotiations,

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with neighboring countries in Latin America as well as global debates on climate change. There are regional experiences that should be considered and coordination between countries is critical. Above all, Ecuador must assume leadership in regional and global negotiations.

## END NOTES

1 Fontaine & Narváez, 2007.

2 Fontaine, 2007.

3 See, for example, GeoAmazonia, 2008.

4 Narváez, 2007 and 2009.

5 See as example the studies by Fander Falconi, 2004.

6 Fontaine, 2007.

7 See Acosta, 2009.

8 Beristain et al., 2009.

9 Falconí, 2004.

10 (see, for example, Schneider, 2007; Ward & Victor, 2008).

11 Falconí & Ponce, 2005.

12 See, for example, Andrade Abdala, 2008.

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**NOTE:** The personal opinions expressed here by the authors do not necessarily reflect the views of the institutions where they work.

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