Planning Development Futures in the Ecuadorian Amazon: The Expanding Oil Frontier and the Yasuní-ITT Initiative

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Oil has been a mainstay of Ecuador’s national development for more than forty years, with oil revenues constituting a major share of government revenues. As the oil frontier continues to expand in indigenous territories and in protected areas, oil has become a source of conflict. Since the early 1990s, there have been conflicts in the Amazon region over extraction, with the opening, for instance, of new fields in Canelo Kichwa, Shuar and Achuar territories (Varrea and Ortiz 1995, Maldonado and Almeida 2006); over transport, in particular with the construction of the OCP (Oleoducto de Crudos Pesados) pipeline (Sawyer 2004); and over waste and pollution, the best known case being the ongoing class action law suit against Texaco-Chevron (Kimerling 2006). At the same time, contradictions in current policy agendas promoting both biodiversity conservation and oil development on the same lands have deepened (Finer et al 2008a&b, 2009 and 2010), indicating that local resistance movements to hydrocarbon projects are increasingly mobilised around the basic demand that the expansion of oil development in new parts of the Amazon rain forest be halted. In Ecuador, the conflict between those who favour and those who oppose the further expansion of the oil frontier has led to a national policy debate, with political ramifications at the very core of the government.

This chapter focuses on one particular protected area, the Yasuní National Park, where a long history of tension between oil development and biodiversity protection has led to the official adoption by the state of an innovative strategy to protect the park, the Yasuní-ITT Initiative. Initially formulated in the 1990s by grassroots campaigners, this proposal aims to create an international fund in compensation for the non-exploitation of the Ishpingo-Tambococha-Tiputini (ITT) fields, believed to hold 20% of Ecuador’s oil reserves. Powerful businesses and influential government officials are still seeking the right to develop the ITT fields. Although the final outcome is far from certain, this case study illustrates particularly well how socio-ecological conflicts may carry over right within the state and lead to public policy debate. It highlights the ways in which social movement and state actors may come together to rethink economy, ecology and political commitment to ensure that development decisions be made in the long term interest of people and nature.

I start with a review of the legacy of oil development in Ecuador and a discussion of the current administration’s efforts to increase state revenues from oil. In the following section, I examine in detail the ways in which oil interests and socio-ecological conflicts have shaped and reshaped the boundaries of the Yasuní National Park, before analysing, in the third section, the Yasuní-ITT Initiative as a source of conflict and institutional innovation. I conclude with some thoughts on the role of the state in regulating the expansion of extractive frontiers.

THE CHANGING RELATIONSHIP BETWEEN STATE AND OIL IN ECUADOR

The 1970s oil boom launched Ecuador into a decade of remarkable economic growth, characterised by massive public work programmes, the rapid expansion of government and of service sectors, the promotion of industry via import substitution, and a mounting foreign debt. Health, education and housing programmes multiplied during this period of bonanza, while agriculture remained stagnant, with poor small-scale farmers sent to colonize tropical forests on both sides of the Andes (Varea and Ortiz 1995, de Janvry et al 1991). However, the Oriente (Ecuador’s Amazon region), the source of national wealth, received very little benefits or social services from the oil rent (Varea and Ortiz 1995). Oil exports started to fall in the mid-1980s, and the oil boom ran out of steam. When the debt crisis hit the country, Ecuador was forced to adopt a series of drastic policies and reforms in order to stabilise the economy, induce structural...
adjustments, and cope with foreign exchange scarcity (see chapter by Orihuela and Thorp). For a country such as Ecuador, by then the fifth largest oil producer in Latin America, measures to achieve ‘optimal participation in the global market place’ (Emmerij 1997: 6) meant increasing economic specialization and the extraction of natural resources for export, in particular heavy crudes. Liberalization of imports, deregulation, privatization of state-owned enterprises, and radical reform of the government sector were all measures that affected the way in which the national oil sector was structured. IMF-inspired austerity measures such as the doubling of fuel prices, natural gas, and public transport fares generated widespread popular unrest. By the end of the 1990s, the country fell into a severe economic recession, caused by, among other factors, the continued fall of oil prices and the infrastructure losses resulting from particularly severe El Niño weather conditions. Inflation had become the highest in the Andean region, leading the government to replace the national currency with the US dollar in an effort to stabilise the economy.

After having dollarized the economy in 2000, the government decided to promote the further expansion of oil exports through increased direct foreign investment, a policy that led to the exploitation of new reserves of heavy crude in the central Amazon region, the construction of a new pipeline, and the exploration of new areas of pristine forest in the Yasuní National Park (see Map). With a total foreign debt reaching US$ 16.5 billion in 2003 (equivalent to 61% of GDP), and pipelines operating only slightly above 50% of their capacity (Larrea 2006), the government found it difficult to resist the short term incentive of continuing to develop new oil fields, and this despite its full awareness of the very low quality of this oil, the proven limits of existing reserves (Ecuador will cease to be an oil producer in the next three decades), and the very serious ecological damage caused by the expansion of the oil frontier. Rises in oil prices from US$ 9.2 per barrel in 1998 to US$ 41 in 2005 and a staggering US$ 160 in 2008 have not provided the incentives needed to promote the diversification of the national economy, or to develop an economic strategy based on the sustainable use of the country’s rich biological and cultural diversity (see also chapter by Orihuela and Thorp). A number of authors have thus argued that neoliberal policies promoting export expansion and foreign indebtedness severely affected Ecuador’s economy, resulting in underperformance in both per capita income and exports (Larrea 2006), and worsening the country’s long-lasting economic stagnation (Kimerling 2006: 654).

Throughout the decade of the 2000s, various administrations tried to redress Ecuador’s imbalanced economy and boost state revenues by reforming contractual arrangements between the government and foreign oil companies. In 2004, while Minister of Finance in the interim government led by Alfredo Palacio, Rafael Correa initiated a new oil policy for Ecuador. The hydrocarbon law was reformed, and part the extraordinary earnings that foreign oil companies had realized since 2003 nationalized. Participation contracts were introduced to reduce the rent of private companies to a maximum of 20%. In May 2006, the contract between Occidental Petroleum Corporation (Oxy) and PetroEcuador was declared null and void. In 2007, less than a year after his election, Rafael Correa expressed his intention to secure firm national ownership over all extracted oil. He called all foreign companies operating in Ecuador to renegotiate their benefit-sharing contracts and accept a substantial reduction in their share of oil wealth with the new status of contracted service provider. This new contract policy led Oxy to leave Ecuador (Maldonado and Almeida 2006). PetroBras, Repsol-YPF, Perenco and Andes Petroleum have all been asked to renegotiate their contracts. A new central planning agency, SENPLADES (Secretaria Nacional de Planificación y Desarrollo) was created, and the Ministry of Oil and
Energy restructured to address Ecuador’s heavy dependency on oil and gas for its energy needs. In 2007, the ministry comprised two separate sub-secretariats, one for oil and one for renewable energies. On 14 September 2009, the ministry was split and replaced with the Ministry for Non Renewable Natural Resources (MRNNR), which now administrates the nation’s oil, gas and minerals.

Competition between PetroEcuador and foreign oil companies to fill Ecuador’s OPEP assigned quota of 520,000 barrels a day increased in 2008, when oil prices rose sharply. The aggregate output of foreign companies fell from 8 million barrels per month in 2007 to 7 million in June 2009, which led the government to invest US$ 700 million in PetroEcuador to boost the daily production to 510,000 barrels a day in the fields owned nationally. Despite the hope that this measure would compensate for the decrease in production in the fields controlled by foreign companies, CEPAL has found that PetroEcuador’s 6.7% increase in production could not make up for the 15% decrease in private production. Total oil production in Ecuador fell by 3.6% in 2009. In the same year, a 6.9% rise in unemployment, a 51.7% rate of sub-employment, and a 12% decrease of remittances (due to the economic crisis affecting the USA and Spain, where many Ecuadorian migrants live and work) resulted in a 0.4% contraction of GDP. Activists, politicians and intellectuals critical of Ecuador’s economic dependency on oil exports have used these figures to illustrate the distortions and uncertainties that oil continues to bring to the country’s development.

If, as shown above, relatively high international oil prices and dwindling reserves have led the government to strengthen national sovereignty over oil resources, the changing relation between state and oil in Ecuador also reflects new geopolitical factors, such as the role of ARPEL (Asociación Regional de Petróleo y Energía LatinoAmericana), OLADE (Organización Latinoamericana de Energía), IIRSA (Integración de la Infraestructura Regional Suramericana), and ALBA (Alternativa Bolivariana para las Américas) in restructuring the economic development and integration of Latin American countries. ARPEL’s mission is to promote jointly with OLADE the development of Latin America’s oil and energy sectors, and, in particular, to achieve their integration through the homogenization of hydrocarbon legislation and energy policy in the region. IIRSA, analysed by Bebbington (2009) as “a continent-wide push to open up frontiers for extracting hydrocarbons, mining, producing biofuels, harvesting timber and investing in agroindustry,” is creating new transcontinental channels of communication and transport that, in the words of Raul Acosta, amount to an ‘extractivist model of transnational capitalist accumulation,’ which ‘does not try to integrate our societies, but, instead, seeks to integrate our economies to the world market.’ ALBA and Venezuela’s ‘oil diplomacy’ both privilege close cooperation between state oil companies, precipitating, for instance, the replacement of North American and European private hydrocarbon industries with Brazilian, Chinese and Venezuelan state companies. I have even heard of Iran’s possible involvement. These new geopolitical conditions contribute to the reconfiguration, both in economic and territorial terms, of oil producing areas in the Ecuadorian Amazon. They are part of the political forces at work in the contest within the government between ‘Plan A’ (combat climate change and preserve biodiversity by keeping the ITT oil in the ground and finding alternative ways of generating state revenues) and ‘Plan B’ (continue to extract the heavy crude contained in the Yasuní National Park and develop new fields, but under firmer state control).

CONFLICTS OVER THE YASUNÍ NATIONAL PARK
The history of conflicts in the Yasuní and the resulting successive alterations to the Yasuní
National Park’s boundaries highlights the growing difficulty - if not the impossibility - of reconciling oil development, biodiversity conservation and indigenous rights in the same territorial space. It also illustrates the role of the state, not as a simple arbitrator, but as a central actor, in the Oriente’s socio-environmental conflicts. Through its property and usufruct rights to non-renewable resources; its custodian responsibilities to parks, protected areas and partially devolved indigenous lands; and, finally, its dependency on foreign and private enterprises to both generate fiscal revenues and organise the Oriente’s economic and social development, the Ecuadorian state and its contradictory policies have led to serious tensions between groups of actors at various scales.

Before Shell’s explorations in the early part of the 20th century and the 1941 war with Peru, there was no strong nationalist attachment to the Yasuní - or to any part of the Oriente for that matter. And before the oil frontier moved south of the Napo River, the Yasuní was no more than one of these tierras baldías (empty lands) belonging to the state, awaiting purchase and transformation into some form of profitable development. The Ecuadorian government created the Yasuní National Park with a surface of 1,476,000 hectares between the Napo and Curaray rivers in 1979. Ten years later, in 1989, UNESCO (United Nations Education, Science and Culture Organization) granted the park the title of ‘biosphere reserve for humanity’ under its ‘Man and the Biosphere’ programme, which secured the park’s international recognition as an area of unique beauty and worth. If this honorific title has neither led to a clear definition of rights or responsibilities, nor bound the Ecuadorian government - or the international community - to preserving its integrity, it has nevertheless created symbolic value, awareness and a certain sense of moral obligation.

The battle for the preservation of the Yasuní started in 1986 when three exploration blocks were carved within the park (Blocks (14, 16, and 17, see Map), a decision that signalled the government’s intention to give priority to hydrocarbon laws over environmental ones. Conoco’s controversial proposal to develop Block 16, the first oil block to be adjudicated in the Yasuní National Park (Kimerling 1990, Tassi 1992), launched an era of expansion of the oil frontier south of the Napo river, to which Ecuadorian environmental NGOs responded by forming a common front, CORDAVI (Corporación de Defensa de la Vida). CORDAVI brought to the constitutional court (the TGC, Tribunal de Garantías Constitucionales) a case against CEPE (Corporación Estatal Petrolera del Ecuador, PetroEcuador’s predecessor), the Ministry of Mines and Energy, and the Ministry of Agriculture (charged at the time of administering the country’s protected areas). The TGC decided on dubious technical grounds, and almost certainly under pressure from the oil industry, to reject the petition (Enríquez Vásquez and Real López 1992, Real López 1997). This did not put an end to the dispute, however, and the park’s boundaries were altered in 1990. The park’s surface was reduced to 982,000 hectares, and the remainder of the land devolved to the newly titled ‘Huaorani Territory’ (Rival 1993, 1996, 1998). This meant that Block 16 was no longer within the Yasuní National Park, but inside Huaorani territory. Two main reasons were given to justify the redrawing of the park’s boundaries. The first one was that Huaorani communities located within the park needed to be attached to the Huaorani territory, so that the Yasuní National Park be without people, a measure that fitted dominant conservation thinking at the time. The second reason was that the law authorizes oil extraction in indigenous territories (where the state remains the sole owner of the subsoil), but not in national parks.

In the end, Conoco did not exploit Block 16, but sold it to Maxus, who drilled 120 wells and developed a large production complex under a controversial risk association contract with PetroEcuador (Rival 2000). Conoco’s project, which was actively supported by influential North
American conservation NGOs such as NRDC (Natural Resource Defense Council) and Cultural Survival (Rival 1992, 1998), divided Ecuadorian environmental NGOs in two wings, those who, like Acción Ecológica, maintained a strong and uncompromising position against oil drilling, and those for whom intense mobilization had to give way to accommodation and a less confrontational relationship between corporate oil, state and civil society. The latter flourished during the late 1990s and throughout the 2000s, when international funding flowed generously to collaborative projects aimed at integrating oil development, indigenous rights and biodiversity conservation, as well as to organizations supporting conflict resolution and social corporate responsibility. However, conflict was never fully tamed (Korovkin 2003), as some indigenous communities continued to fight resolutely, most notably the people of Sarayacu (Villamil 1995), and certain issues continued to cause intense debate, especially that of free prior informed consent (Melo et al 2002, Rival 1997). Legislation passed in 2002 (Reglamento de Consulta y Participación para la Realización de Actividades Hidrocarburíferas) established a mandatory consultation process before the signing of any new lease or approval of Environmental Impact Assessments (EIAs). However, this regulation did not make consent mandatory, nor did it recognize the right of veto. Conflicts and mobilisation surged once more in 1994, when Ecuadorian, European and North American environmental NGOs came together with indigenous organizations under the banner ‘Amazon for life’ (Campaña Amazonia por la Vida) to fight against the government’s seventh invitation to tender for new oil concessions in the Oriente (Varea and Ortiz 1995, Rival 1994, 1997).

The relationship between indigenous communities and oil companies in the Yasuní has been a complicated one all along, especially in the case of Huaorani communities and Maxus (Rival 2000, Ziegler-Otero 2004). Huaorani people claim use rights to the whole of the Yasuní, while trying to articulate their own view of territoriality and good life in a changing world where cash income has become a necessity (Rival 2009b, Surrallès and Garcia Hierro 2005). When Petrobras won the right to operate Block 31 (see Map), the Huaorani organized various local and regional protests culminating with a march to Quito in July 2005 (Andrade 2007). In an action reminiscent of their mobilisation against Maxus (Rival 1998, 2000), they first forced Petrobras to double its funding for the ‘Plan for Life’ (Plan de Vida), and then demanded the company’s expulsion from their territory, as well as a full ban on oil development in the Yasuní. A range of organizations campaigning against the government’s ambiguous consultation procedures supported the Huaorani mobilization, which, in turn, strengthened the environmental movement’s opposition to the granting of an environmental licence to Petrobas.

The acquisition of Block 31 by Petrobras precipitated the launch of the ‘Save the Yasuní’ campaign by a coalition of concerned scientists, environmentalists and indigenous rights NGOs. Opposition climaxed in the summer of 2005, when the court supported a decision by the in-coming Minister for the Environment to de-authorize the licence against the company’s appeal (Maldonado and Almeida 2006: 92-104). However, and despite mounting protests from civil society organizations, Petrobras’ environmental licence was not fully revoked, but simply suspended on the grounds of irregularities, before being finally granted in October 2007.

The convergence of indigenous rights and environmental protection is also well illustrated by the fate of Block 17 (see Map) and the creation of a legally protected territory within the Yasuní National Park for indigenous communities living in voluntary isolation. Block 17, which had been adjudicated to the French oil company Elf Aquitaine (with the participation of BrasPetro) in 1986, was declared a sanctuary closed off to economic development after the tragic death of Archbishop Labaca in July 1987 (Grández 1989). During the ensuing twelve years of
moratorium (until 1999), it became home to groups such as the Tagaeri and Taromenane, and possibly other groups fleeing away from Peru’s aggressive oil frontier. In 1999, two presidential decrees were passed. One changed the sanctuary’s status from protective no-man’s-land to zona intangible (intangible or untouchable zone); the other annulled the law exempting protected areas from oil development. By overturning constitutional law on the ground of superior national interests, this second decree created a dangerous precedent, and weakened environmental policy and regulation in Ecuador. It is this second decree that made the development of Block 31 possible in the Yasuní National Park, as it did in other parks belonging to the National System of Protected Areas (SNAP). With 71% of the park now a zona intangible and 29% opened to extractive development in blocks operated by five oil companies (Repsol, EnCana, Petrobras, Occidental and PetroEcuador), the Yasuní National Park’s status was entirely transformed, without any modification of its boundaries, as it had been the case nine years earlier, in 1990 (see Map).

It took no less than seven years to pass the first decree and legalize the zona intangible as ITTZ (Intangible Tagaeri Taromenane Zone). Whereas environmental and human rights activists campaigned for natural boundaries such as rivers, the oil companies whose blocks partly overlapped with the zona intangible did everything in their power to ensure minimal encroachment to their concessions. The boundaries of the zona intangible were finally agreed upon in January 2007. ITTZ legalization was prompted by another tragic event involving the incursion in May 2003 of a group of ‘civilized’ Huaorani men motivated by a mix of traditional grievances and external influences into the zona intangible to kill a dozen or more ‘Tagaeri’ and ‘Taromenane’ (Cabodevilla 2004, Rival 2009a). It took the IACHR (Inter-American Court of Human Rights) three years to react to this raid and issue in May 2006 a precautionary order for the protection of the human rights of groups in voluntary isolation, an order which in turn moved the Ecuadorian government to finalize the official demarcation of ITTZ’s 780,000 hectares. Although celebrated as a positive outcome signalling Ecuador’s moral commitment to the protection of the rights of ‘non-contacted’ Indians, ITTZ offers, in practice, only minimal protection. It cannot prevent incursions by loggers and other illegal economic actors, or the unfolding of tribal history. The status of ‘civilized’ and ‘contacted’ Huaorani who have formed at least three settlements within ITTZ is now preoccupying human rights campaigners. Under the new legislation, these settlements should be relocated outside ITTZ boundaries. However, lawyers are demanding that these Huaorani families be allowed to remain in the park as ‘guardians’ or ‘protectors’ of their ‘non-contacted brethrens.’

Ecuador’s weak commitment to protect the integrity of the Yasuní National Park perfectly illustrates the contradictions that have existed between state policy on biodiversity conservation and indigenous land rights on the one hand, and oil development on the other. The Yasuní-ITT initiative, as I argue in the next section, is aimed at both making this commitment much stronger, and resolving the contradiction between conservation and development.

THE YASUNI-ITT INITIATIVE AND THE INTERNALIZATION OF THE CONFLICT OVER OIL DEVELOPMENT

On 4 April 2007, Rafael Correa signed a memorandum of understanding with Lula, President of Brazil, regarding the participation of Petrobras in the development of the ITT fields. A few days later, the then Minister of Energy and Mines, Alberto Acosta, led a counter-proposal, which would allow Ecuador to generate needed state revenues without extracting the oil. On 5 June 2007, Rafael Correa announced that his government favoured the latter proposal, which was
officially presented to the General Assembly of the United Nations on 24 September 2007. ‘ITT Option One,’ as it was then called, proposed to leave permanently underground the country’s largest untapped oil reserve and to design a compensatory financial mechanism with the participation of the international community to cover 50% of the government’s foregone revenue. In his speech to the UN, President Correa declared that ‘the Ecuadorian proposal seeks to transform old conceptions of the economy and the concept of value,’ adding that ‘Ecuador is open to great sacrifices and ready to act with creativity and a sense of justice to counteract the effects of Climate Change on our planet.’ A special commission was created to develop ITT Option One, explore various financing mechanisms, and present the project to international bodies and European governments in the build up to the Copenhagen Meeting of the Parties (COP 15) in December 2009.

ITT Option One immediately received the backing of Ecuadorian and North American environmental NGOS campaigning for the preservation of the Yasuní National Park, who presented it at the Conference of the Parties in Bali in December 2007. The idea of generating revenues by keeping oil in the ground had actually been formulated a good ten years earlier by civil society organizations such as Acción Ecológica and Oil Watch (Boedt and Martinez 2007: 65). The idea had been widely circulated and discussed within the environmentalist movement in Latin America, Europe and Nigeria, and had led to the publication, among others, of Acción Ecólogica’s 2000 book El Ecuador Post Petróleo. Most former environment ministers of Ecuador, officials from the United Nations, academics in various universities around the world, the Paris Club, multilateral lending bodies such as the Inter-American Development Bank, celebrities and many others expressed their enthusiastic support for ITT Option One throughout 2008 and 2009.

This show of international support moved the Correa administration, first to postpone - several times - its decision on the ITT development, and then to promote the ‘big idea from a small country’ as ‘one of its most important foreign policy initiatives.’ Several European governments offered their backing and technical aid, in particular Spain. Germany, following a decision voted in the Bundestag in June 2008, pledged an annual sum of US$ 50 million for thirteen years, conditioned by the legal creation of a trust fund (Krauder et al 2008). By late 2009, UNDP was helping the special commission, which had already raised at least US $ 1.7 billion, to set up the Trust Fund. European political support and Germany’s promise of hard cash are good indicators of the relevance of the Yasuní-ITT Initiative in the context of international climate change negotiations (Larrea and Warnars 2009, Martin 2010). The initiative has been seen by many as providing a creative solution to the threats to the Yasuní National Park’s people and biodiversity, while contributing to reducing carbon dioxide emissions. However, all this success and enthusiasm came to an abrupt halt in early January 2010 when President Correa denounced the Trust Fund as a new form of colonialism threatening national interests, causing the resignation of the Minister for Foreign Affairs, Fander Falconí, as well as that of the special commission’s members (Kuleta 2010, Bebbington and Humphrey Bebbington 2010).

Alberto Acosta, who brought the Yasuní-ITT project to official circles while serving as Minister of Mines and Energy, and who subsequently continued to support it while President of the Constitutional Assembly, explained in a recent interview how difficult it had been to convince the government of the project’s merit and validity. On the one hand, very few officials understood the rationality of his decision: ‘For many of my colleagues, it was inconceivable that the very minister in charge of developing oil would campaign for its non-exploitation.’ On the other hand, the president of the state company, PetroEcuador, was doing all in his power to speed a
decision to approve oil extraction from the ITT fields, negotiating agreements during July and August 2007 with a range of foreign state companies, such as Enap, Sinopec, Petrobras, and PDVSA (Acosta 2009: 2-3). Campaigners I interviewed mentioned that the option of keeping the ITT oil in the ground was hampered by a lack of clarity around responsibilities and remits between the various ministries involved (Ministry for the Environment, Ministry of Mines and Energy, Ministry of Foreign Affairs and Ministry of Finance), and PetroEcuador’s unwillingness to provide key information to the understaffed and underfunded technical team charged with developing the proposal. This only further strained the already fraught relationship between the Minister of Mines and Energy and the President of the state oil company, each of whom had a different interpretation of Article 32 of the hydrocarbon law, while also claiming the exclusive power to negotiate contracts for new oil projects. Another tension that has characterised the relationship between PetroEcuador and various ministries relates to the fact that PetroEcuador is structured and organized in a way that ensures maximal use of oil profits as government revenues, to the expense of reinvesting in the company in order to make it more resource efficient and less polluting. Conflicts, therefore, resulted from contradictions that ran deeper than a simple lack of clarity in the chain of command regulating the hydrocarbon industry. Located at the very heart of the state governance system, these contradictions concerned, on the one hand, the issue of ‘externalities’ and ‘cost shifting’ (Martinez Alier 2009), and, on the other, the legality of drilling for oil in protected areas. It is perhaps with the latter in mind that Alberto Acosta chose to put all his energy into the constitutional assembly, rather than fight the political influence of PetroEcuador directly within the Ministry of Mines and Energy. The new constitution, however, has not put an end to the possibility of overturning constitutional law on the ground of superior national interests. If proposed by the President, declared of national interest by Congress, and publically supported through a referendum, oil drilling in the Yasuní National Park could once more become legal (Warnars 2010: 60, Finer et al 2009: 12).

As a precondition for implementing the ITT project, Ecuador has asked the international community to contribute 50 % of the projected oil revenues (i.e. US$ 350 million per year for thirteen years) into a fund. This would partly compensate the country for the forgone annual oil revenues, projected at around US$ 700 million. The financial mechanism envisaged, which is the subject of so much discussion today (Rival forthcoming), was barely sketched in the initial version of the proposal. The original idea involved the emission of security bonds for the ITT in-the-ground oil called ‘Certificados de Garantía Yasuní’ (CGYs). The state would guarantee the CGYs to underwrite its double commitment to never extract the ITT oil and to ensure the effective protection of the Yasuní National Park (Boedt and Martinez 2007: 6-7). Any world citizen or entity (government, non-governmental agency, private enterprise, etc) could buy CGYs and become a ‘shareholder.’ CGYs could also be purchased through indirect donations, including various types of agreements - multi- and bilateral, international aid and cooperation, or debt cancellation. There were also talks of creating a permanent capitalization fund of around US$ 4 billion to generate an ongoing income equivalent to the annual figure requested by Ecuador.

In an interview, Yolanda Kakabadse explained that the negotiating commission had designed a framework that would give donors confidence in the instrument proposed. This is why the creation of a fiduciary fund (i.e. trust fund) managed by an international organization with oversight on how the funds would be disbursed and control over the fulfilment of the fund’s objectives was proposed. She stressed the complexity of the proposal, and the extent to which it relied on trust. As, she added, trust may be in very short supply when it comes to Ecuador, the
country’s present and future governments would need to demonstrate their absolute commitment to honouring the terms of the CGY bonds. International oversight may be seen as a constraint, but one worth embracing, given that the financial benefits flowing to Ecuador via the Trust Fund would be far greater than those the government could hope to generate through developing the ITT oil. Moreover, it would give Ecuador a leading role internationally as the first country to use this strategy for reducing climate change (Kuleta 2010). Although Kakabadse frames the main challenge as being one of governmental trustworthiness, research indicates that other fundamental issues made the Yasuní-ITT Initiative increasingly difficult to sustain in the build up to Copenhagen, and this despite - or perhaps because of - its undeniable success in attracting backers. Difficulties appeared in the course of 2009 on two fronts, the nature of the payments to be made to the trust fund and its governance structure, leading to divisions and dissensions among the social actors involved in developing and supporting the Initiative. Until 2008, the CGYs were broadly conceived as government bonds that could be given to any one in the world who made a payment to the trust fund, be it a gift, an individual donation, a private contribution, a debt cancellation, or a payment for environmental services. Ecuador would receive money from selling CGYs as emission prevention through the non-exploitation of fossil fuels. The feasibility of linking CGYs to emission permit auctions, carbon emission taxes, and other payment systems linked to the Kyoto Protocol was examined by the special commission, the negotiating team and international experts. It is because of the existence of international carbon markets alongside oil markets that the value of CGYs was indexed to the value of carbon dioxide, with 1 CGY calculated to equal the value of 1 metric ton of CO2 (Rival forthcoming). In November 2009, Rafael Correa explained: ‘In the Yasuní, we have 850 million barrels of heavy oil […] but these 850 million barrels – if they were extracted – would generate 410 million tons of carbon dioxide (in other words, huge pollution). The value of these emissions, if this was carried out in Europe, and carbon permits had to be purchased to pollute legally, […] would be € 5 billion. In other words, we are avoiding pollution in that figure […] The Kyoto framework needs to include the concept of compensation for avoided pollution.’ For most carbon trade specialists, however, obtaining funds for avoided emissions from avoided oil extraction is not a financial mechanism based on market principles, and CGYs are not compatible with emerging REDD trading regimes; their circulation requires a political decision. This is why the negotiating team had to argue that the Yasuní-ITT Initiative should be treated as a pilot-project, that is, a unique experiment beyond the Kyoto Protocol, which could become a model for other small countries with similar levels of poverty and biological wealth. That CGYs were found not to be eligible for the REDD strategy discussed at the fifteenth Conference of the Parties (COP 15) in Copenhagen in December 2009 undermined the Yasuní-ITT Initiative. However, it also illustrated some of the political conflicts surrounding the North-South dialogue – or lack of - at the COP 15 meeting. Whether CGYs are more a political currency than a market tool does not worry supporters of the proposal such as Carlos Larrea, for whom CGYs primarily encapsulate the principle of joint responsibility as well as international solidarity in combating climate change and protecting the earth’s biodiversity (see Larrea and Warnars 2009). For Acción Ecológica and many in the environmental movement who do not see carbon trading as a satisfactory solution to the problems of climate change, CGYs are a clear alternative to emission permit auctions. Other supporters, who identify Ecuador’s oil based development model and ensuing national debt as the real problem, defend the Yasuní Initiative as a mechanism to cancel part of the debt. Another group of supporters would like the initiative to focus on national, rather than international, solidarity. They stress that many Ecuadorians
could pay into the trust fund, and that PetroEcuador could become a much more efficient company, which would make as much profit, or more, without expanding the oil frontier further into the rain forest.

The governance of the trust fund became a second bone of contention in the final stages of agreeing the terms of reference for the fund. These had been prepared with the help of UNDP (United Nations Development Programme), the international organization that seemed most legitimate to become the fund’s overseer. Although more research is needed, from the evidence I have been able to gather through interviews, analysis of declarations and press reports, and study of the UNDP draft document, the main problem appears to have been one of reconciling very different ways of structuring the chain of command for action, especially when targets are not met, as well as organising project funding and timing project delivery. The document specifies that UNDP would administer the fund through its MDTF (Multi-Donor Trust Fund) Office, and that the fund ‘would be governed and overseen by a Steering Committee led by the Government, with the participation of donors, development partners and stakeholders.’ The fund would be constituted of two wings, a Capital Fund Window and a Revenue Fund Window. Who would participate in the Steering Committee, and who would have ultimate overall responsibility for funding decisions seems to have been a point of contention. The document specifies that the Ministry of Foreign Affairs through the Yasuní-ITT Coordination Office (i.e. the special commission) would become the Government Coordinating Organization, and that the latter would work very closely with the Ministry of Finance. The flow chart provided at the end of the document makes it clear that the Government Coordinating Organization comes under the authority of the Steering Committee. The relationship between the Capital Fund Window and the Revenue Fund Window, described in point 8 and Graph 1, is not entirely clear. Graph 1 indicates that contributions to the fund earmarked for renewable energy projects would be channelled through the Capital Fund Window, while conservation, reforestation and social development projects would be channelled through the Revenue Fund Window.

Rafael Correa responded negatively to this governance structure, and objected that ‘Ecuador is the major donor in this initiative […] those who want to give to the fund are not donors, they are contributors.’ Further research is needed to establish whether other members of the government felt a lack of ownership over the setting of development priorities in relation to the National Development Plan. Although Correa could have chosen to negotiate a more appropriate governance structure, instead of presenting the special commission and UNDP with an outright and indignant rejection, the conflict over the terms of reference clearly demonstrates the difficulties met by policy makers who try to institutionalise new ways of organising government revenues and of integrating social and environmental policy. Oil is a strategic asset in Ecuador, and there is no doubt that the Yasuní-ITT Trust Fund, as proposed, would have short circuited the ‘political mechanism by which oil revenues are distributed’ (Watts 2005: 380), in particular the unique relationship that seems to have prevailed between PetroEcuador and the Ministry of Finance. Perhaps more could have been done to include PetroEcuador in the negotiations, and to convince the national company of the role it could potentially play in delivering the new, post-oil economy that Ecuador so desperately needs.

State planning and the role of biological and cultural diversity in Ecuador’s economic future:

In Ecuador, as in other regions of Latin America poor in financial capital and rich in biological and cultural diversity, entrenched social and economic inequalities and weak state institutions pose very specific challenges for policy design and implementation. I have argued in this
chapter that the Yasuní-ITT Initiative, which represents Ecuador’s favoured option for the economic future of the Yasuní National Park, constitutes an innovative policy that addresses the challenge of developing economic activities that enhance the wellbeing of people while ensuring the maintenance of integrated social and ecological systems. I have shown that the proposal has deep roots in the history of conflicts over the southern expansion of the oil frontier in the Ecuadorian Amazon. The convergence of indigenous and environmentalist concerns over the negative externalities of oil extraction, and the failed attempts by the oil sector to reconcile oil development and biodiversity conservation have both helped conflicts to amplify. However, the main cause of conflict, I wish to argue, is the state’s lack of power to make oil drilling in protected areas illegal, a political weakness which has resulted in an overlay of contradictory land use legislation in areas controversially earmarked for oil production. Contradictory legislation has resulted in the fragmentation of the Yasuní National Park into an intricate patchwork of extractive concessions, protected areas, and indigenous territories. The Yasuní-ITT Initiative aims to offer a way out of the tension between development and conservation by giving the state a strong incentive to decrease the nation’s dependency on oil extracted from protected areas while ensuring that there will be sufficient, alternative funding available to preserve biodiversity, safeguard indigenous ways of life, and develop renewable sources of energy. Its goal, in short, is to ‘green the state’ (Eckersley 2004, Dryzek et al 2003). I have shown that the Yasuní-ITT Initiative is best analysed as part of a wider government attempt to control the size and role of oil revenues in the national economy in response to the twin challenge of preserving the environment and reducing poverty. I have discussed the current administration’s efforts to regulate and control state revenues generated by oil through policy interventions at the domestic, regional and international levels. Inside Ecuador, policy makers have attempted to reform contractual arrangements with foreign oil companies. There have been attempts to address the power imbalance between the government and PetroEcuador, as well as efforts to address PetroEcuador’s investment and development strategy. Stronger government regulation has resulted not only in a higher share of oil profits for the state, but also in a keener awareness that the oil frontier should not expand ad infinitum or without careful and democratic consideration of the costs and benefits of any further or alternative development. The Yasuní-ITT Initiative can thus be seen as representing a novel regulatory mechanism evolved out of conflict resolution and leading to transformative planning. Intra-governmental conflicts over the various proposals for the ITT fields, the trust fund’s governance structure, the value of CGYs, and the nature of services to be compensated for seem to have played a positive role in at least two respects. On the one hand, the Yasuní-ITT Initiative has institutionalised a policy making process which may facilitate the innovative integration of conservation and development policies. By proposing a new way of producing and creating revenue, it offers a way out of the entrenched contradiction between forest and biodiversity protection, until then the remit of the Ministry for the Environment, and oil production and energy, until then the sole responsibility of PetroEcuador and the Ministry of Mine and Energy. On the other hand, it has allowed social and political actors to work together for the first time (Martin 2010: 29, Rival 2009b). The initiative started as a collaboration between radical ecologists imagining a post-oil future for Ecuador and the rest of the world (for instance, Esperanza Martinez of Acción Ecológica), and government officials convinced that ecosystems goods and services need to be considered in economic decisions (such as Alberto Acosta, Fander Falconí, Roque Sevilla and Yolanda Kakabadse). This new form of collaboration is far from being properly institutionalized, or free from tension, as Warnars’ (2010: 71-72) research
highlights. In any case, the collaboration between government and civil society organizations around the Yasuní proposal has been of a different nature from the service providing vs radical opposition relation that prevailed in the 1990s (Bustamante 1995). Tensions within the government, and for that matter, within the new dominant political party (Alianza País) reflects wider political tensions over the kind of international solidarity and regional integration Ecuador should be seeking, a point ignored by analysts who stress the initiative’s role in boosting Ecuador’s presence on the international scene (Warnars 2010, Martin 2010). Should the Yasuní-ITT Initiative, as Ecuador’s main foreign policy, be directed to the EU, or should it be integrated in the political and economic agenda of ALBA? Should the CGYs be traded on the carbon market, or should they be inserted in the SUCRE (Sistema Unificado de Compensación Regional)? Further research is needed to establish the extent to which regional projects such as ALBA and IIRSA not only shape the ways in which Ecuador’s oil policy is being rethought, but also create new tensions and new conflicts over the nature of the country’s participation in the international climate regime. The fact that the current climate negotiation regime strongly discourages a country from receiving payments for offsetting part of its foregone oil revenues and using these payments pro-actively to protect biodiversity is another source of tension that may lead to further institutional innovation to control ecological degradation (Giddens 2009: 94-100).

The two proposals of developing the ITT oil fields or keeping the oil in the ground illustrate both the politics of negotiating trade-offs between conservation and economic development, and the great difficulties met by actors who defend the value of cultural and biological diversity. Whether the Ecuadorian state can live up to its pledge of regulating the environmentally destructive force on which its economic power is based remains to be seen. In any case, the Yasuní-ITT Initiative has sparked the imagination of many and facilitated an important public debate among the population. According to a recent survey, public support in Ecuador for the initiative has raised from 58% to 75%. Many citizens are now challenging the idea that Ecuador is too poor to protect its biological and cultural wealth, or to afford leaving reserves of heavy crude untouched (Rival forthcoming). Citizens and local people have not contributed to the design of the Yasuní-ITT Initiative yet. This absence has been justified on the grounds that (1) preparedness for international negotiations requires a strong, central government-led proposal; (2) uncertainty about deadlines and funding made the involvement of local actors difficult, if not impossible; (3) initiating the proposal required the acquisition of complex and highly technical knowledge; (4) involving a multiplicity of diverse actors at an early stage would have weakened the proposal; (5) no false expectations should be raised among the local population. In short, it was thought that the initiative needed to start as a learning process within the central government before it could be shared more widely at the local level. Local actors such as Anita Rivas, Mayor of Francisco de Orellana (Coca), Guadalupe Llori, Governor of the Orellana Province, and representatives of indigenous communities and popular organizations, who would have liked to be involved in the process of drafting the Yasuní-ITT Initiative, are critical of the central government’s inconsistent support for the proposal. They are particularly concerned with the social and cultural changes wrought by extraction in their region. Although more research on local perceptions of the Yasuní-ITT Initiative is needed, data I collected seem to suggest that for local political actors, especially at the municipality level, a strong state is a state that knows when and where to stop the oil frontier.
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