

Elements for a political and economic proposal for the initiative to prevent the exploitation of the ITT oil reserves.

Alberto Acosta  
Eduardo Gudynas  
Esperanza Martínez  
Joseph Vogel

*"We are all working together to one end, some with knowledge and design, and others*

*without knowing what they do; as men also when they are asleep, of whom it is Heraclitus, I think,*

*who says that they are labourers and co-operators in the things which take place in the universe.*

*But men co-operate after different fashions: and even those co-operate abundantly, who find fault*

*with what happens and those who try to oppose it and to hinder it;*

*for the universe had need even of such men as these.*

*It remains then for thee to understand among what kind of workmen thou placest thyself.&quot;*

Marcus Aurelius, Roman Emperor (121-180)

## **INTRODUCTION**

In 2007, the Ministry of Energy and Mines of Ecuador publicly presented a proposal to leave the oil reserves situated in Yasuní National Park unexploited. The initiative represented a

substantial effort to protect the environment and local communities, and to seek innovative alternatives to the traditional extractive development model based on the export of raw materials.

The proposal, also known as the ITT Initiative (referring to the Ishpingo, Tambococha and Tiputini oil reserves, located in the park), rapidly attracted a great deal of attention on an international level and spurred considerable debate over the means that should be adopted in order to implement it. It was also understood that its implementation would require financial resources, which led to further discussion over the means to generate these.

The initiative encompasses a number of major aspects. For one, it signals a breaking point from the country's historical environmental conduct. It represents an emblematic measure for confronting global warming in practice, thus moving beyond the stage of speech-making devoid of concrete proposals. It is a firm step towards challenging the extractive development model (based on the export of raw materials) while, at the same time, contributing to the general promotion of *buen vivir* (well-being). The proposal is essentially grounded in respect for the natural environment and for the culture and way of life of indigenous peoples who continue to live in voluntary isolation in Ecuador today.

When it was presented in 2007, this initiative and its proposal of an alternative to the model of development based on raw material exports sparked considerable controversy. However, the economic crisis of 2008 laid bare the serious contradictions inherent in this development model, the fragility it entails for economies like Ecuador's, and the need to begin seeking out alternative paths. Essentially, the ITT Initiative would pave the way for the collective construction of a post-oil economy, thus continuing an effort begun many years ago in Ecuador.

The ITT Initiative is aimed at preventing the exploitation of fossil fuel reserves in highly biologically and culturally sensitive areas, and is therefore a measure to protect biodiversity in the Amazon region and the ecological processes that it sustains. At the same time, the initiative takes advantage of the new international context, in which new commitments on energy and the environment are being debated, thus offering the possibility for Ecuador to play a political leadership role on the world stage.

More than two years have passed since the public presentation of the ITT Initiative, yet the means and instruments to implement it have yet to be defined and agreed upon. Given this situation, we believe it is essential to contribute to this process through reflection and analysis. This document constitutes a civil society exercise in which a number of individuals, who do not necessarily agree on all matters, have joined together to discuss an issue and put forward a series of ideas backed by a certain degree of consensus, with the aim of encouraging debate. This collective document serves in itself as an example of "good practice", demonstrating that environmental management based on a plurality of views is fully possible.

One of the conclusions reached in this document is that there are solid arguments for the defence of the ITT Initiative, in terms of its aim to protect the human communities living in the area, the environmental importance of the area due to its high degree of biodiversity, the contribution it would make to mitigating global climate change, and its role as an example of a possible path towards a post-material development model that would free the country from its dependence on extractive industries. We further believe that the new Ecuadorian Constitution adopted in 2008 reinforces the importance of this initiative, particularly through its provisions for environmental protection and the right to well-being. We therefore consider that the ITT Initiative should be addressed as a public policy, where it is necessary to clearly define its political elements.

The implementation of this initiative would involve an economic-financial component. This document analyzes various aspects of this issue. Nevertheless, the fact that this component has yet to be defined cannot be used as an excuse for inaction. In fact, there are a number of options that respond to different conceptions of the meaning of financing for the initiative. As a result, there is more than one path to be pursued in the search for funds, which should be viewed as contributions to the initiative, but not as an essential prerequisite for its feasibility. Finally, we argue that the design of these mechanisms and defence of the initiative require new and greater protagonism by the Ecuadorian government on an international level, both regionally (with the other Amazon region countries) and globally.

### **THE ITT INITIATIVE: PRESENTATION AND**

### **CURRENT STATE OF DISCUSSION**

The ITT reserves are situated in the northeastern section of Yasuní National Park. The latest estimates place the volume of recoverable heavy crude (14.7° API) at 846 million barrels. These could be exploited for a period of approximately 13 years, with a production of 107,000 barrels a day from the fifth year onwards. The extraction of the oil would be part of a package that would also include a refinery and thermoelectric power plant.

Yasuní National Park was created in 1979. Since that time, it has undergone numerous changes in its boundaries and size, and now occupies an area of 982,000 hectares of land (Fontaine & Narváez, 2007). The park is currently in poor shape, because it receives the least funding per hectare and has the smallest staff of all of the protected areas in Ecuador (Fontaine, 2007).

Since it was first publicly announced, the ITT Initiative has inspired both messages of support and comments reflecting doubts and incomprehension. In mid-2008, the initiative was given a major boost by the official support of the German parliament, which called on other European parliaments to provide similar backing. The German government also formally pledged financing to implement the proposal. Although it was not possible to gain the support of the Norwegian government, which contributes to the largest European fund for the reduction of emissions from deforestation and soil degradation, various political and civil society sectors in Norway have shown interest in supporting the Ecuadorian proposal. The ITT Initiative has also been enthusiastically received by members of the European Parliament, as well as by government agencies in North America, some multilateral agencies, and numerous international civil society organizations. The enthusiasm sparked internationally has contrasted with the still rather lukewarm response seen in Ecuador, which is the result of the limited efforts to promote the initiative nationally.

In 2007, while addressing the United Nations, Ecuadorian President Rafael Correa put forward the proposal to leave the heavy crude oil reserves underground, if the international community would compensate Ecuador for at least half of the income that it would receive by exploiting these reserves. At that point in time, no consideration had been given to the difficulty of estimating how much money this would represent. Nonetheless, the message clearly pointed to shared responsibility between Ecuador and the rest of the world.

The ITT Initiative received national political backing (indirectly) on 28 September 2008, when

the majority of the Ecuadorian electorate approved the new constitution drafted in Ciudad Alfaro, in Montecristi. The cornerstone of the constitution is the concept of *sumak kawsay* (in the Quechua language) or *buen vivir* (in Spanish), which literally means "good living", or well-being. The constitution also officially recognizes the rights of nature.

The ITT Initiative, as part of this new vision of development in Ecuador, has been accompanied by other proposals put forward by President Correa himself. For example, during a meeting of the Organization of the Petroleum Exporting Countries (OPEC) in November 2008, Correa proposed the implementation of a tax on oil exports to finance the fight against poverty and the promotion of alternative energy sources to counteract climate change. Meanwhile, the proposal to cease paying the foreign debt, following an auditing process, contributes to reflection on the need to profoundly change international negotiations and move towards global justice models.

Unfortunately, the government has still not formulated and publicly proposed a clearly defined strategy, despite President Correa's numerous and ever more enthusiastic presentations of the initiative abroad. Moreover, the initiative has been threatened on numerous and repeated occasions by inconsistent and contradictory stances adopted by the government. Although the proposal may at times appear to be a Gordian knot, any ambiguity can seriously endanger this truly revolutionary initiative.

More than two years after the public formulation of the ITT Initiative, the instruments that would be used to put it into practice have yet to be defined. For example, it is still not clear what mechanism would be used to ensure the necessary financing, or what political steps would be taken to more clearly guide the Ecuadorian economy towards a post-extractive era and to promote, on a global level, the pillars of what should be an international policy of coexistence

based on environmental justice.

## **KEY ELEMENTS OF THE CONCEPTUAL**

### **FRAMEWORK OF THE ITT INITIATIVE**

This section will analyze and comment on a number of key aspects of the conceptual foundations of the ITT Initiative.

**The context created by**

**the new constitution**

The new Constitution of Ecuador takes up and crystallizes a number of ideas, concepts and

demands that are directly related to the ITT case. The text of the new constitution creates a strong mandate for social justice and the defence of nature. This is expressed, particularly, in the recognition of the Rights of Nature, and in the direct connection of the protection of natural resources with a model of development conceived as pluralistic and aimed at the promotion of well-being (*buen vivir*).

In line with this reasoning, the ITT Initiative is clearly rooted in environmental and social justice. The protection of this area, as will be seen below, is motivated by an assessment of the importance of its ecological wealth and human communities, and the high social, environmental and economic cost of activities like oil drilling. This stance reflects a plurality of values as a new basis for the design and discussion of public policies, where the traditional economic cost/benefit analysis based solely on market values cannot be the only grounds for public policy. In particular, it recognizes that the environmental dimension cannot be separated from the social dimension, and that a great many values are incommensurable. In accordance with the new constitution, the pursuit of well-being must be founded on human rights and the rights of nature.

The recognition of a plurality of values - aesthetic, religious, cultural, environmental, etc. - makes it possible to view nature of having rights of its own, as established in the new Constitution of Ecuador. As a consequence, decision-making becomes a political process and not simply a technical resolution based purely on economic costs and benefits.

At the same time, the ITT Initiative responds to the emerging concept of shared but differentiated responsibilities with regard to climate change, the preservation of biodiversity, environmental deterioration in general, and the global financial crisis.

The initiative is also grounded in the idea of a post-material development strategy, with a post-extractive component, in the context of a country that is dependent on oil exports, as is Ecuador. This demands the design of innovative management proposals, in order to put into practice revolutionary ideas that require imaginative financing mechanisms (which will be presented below) and to utilize ideas that have for many years been rejected or marginalized yet are highly pertinent to the current realities.

Without a doubt, an innovative proposal such as this requires instruments that are equally innovative. We are inescapably obliged to rethink matters imaginatively, without disregarding the economic and political advances made in the environmental field, but recognizing that these advances must be constantly enriched in order to confront a reality shaped by multiple factors, and especially by profoundly deep-rooted ideas that make it difficult to escape the shadows of the past. Some of these are addressed in the following section.

### **Grounds for a moratorium**

#### **on oil drilling in Yasuní**

Given the new constitutional framework, the grounds for supporting the ITT Initiative can be organized on at least three levels:

1.

*National reasons*

At the national level, there are various arguments to back the decision to keep the oil in Yasuní National Park underground.

First of all, it would prevent the disappearance of the Tagaeri, Taromenane and Oñamenane communities, who form part of the Huaorani nation, and whose survival depends on hunting, gathering and itinerant agriculture. The Huaorani have survived the onslaught of other cultures and Western civilization by taking refuge in interfluvial lowland areas like those in Yasuní National Park. Nevertheless, the constant expansion of logging and oil drilling have irreversibly affected the majority of these communities. In fact, the Tagaeri, Taromenane and Oñamenane have opted to live in voluntary isolation, inhabiting the “untouchable” or protected zone in the southern section of Yasuní.

The environmental importance of this area is undeniable. The ITT reserves are located under one of the most biologically diverse areas on the planet, which is home to no less than 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 studied (see, for example, GeoAmazonia, 2008).

National legislation demands both the protection of these human groups and the conservation of these ecosystems. This includes legislation on the collective rights of indigenous peoples, laws and national regulations on environmental protection and protected areas, and above all, the rights of nature enshrined in the new constitution, which reinforces and expands on these protections. The importance of the park led UNESCO to declare it a World Biosphere Reserve in 1989.

The current state of the park is critical. Observers have warned that “the model of conservation in Yasuní is on the brink of collapse,” and that the state's responsibility for ensuring its protection is not being fulfilled, due to tensions, disputes, legal uncertainties and non-compliance with regulations, a situation that generates and perpetuates conflicts (Narváez, 2007 and 2009). These conflictive dynamics are largely the result of the pressures created by the aspirations of oil companies, which means that the ITT Initiative would have enormous value in removing the main source of pressure on the area.

Opening up the park to oil companies would lead to the same processes observed in other parts of the Amazon: environmental contamination and destruction of the means of survival of local populations. Once the oil companies have gained entry, they would be followed by other actors, paving the way for a host of destructive processes, such as illegal logging, forest fires, and agricultural activities unsuited to the characteristics of an area like this.

Finally, among the national reasons for supporting the initiative, it is clear that if the economic costs of the social, environmental and productive impacts are subtracted from the revenues generated by extracting the oil, the potential economic benefits would be largely

cancelled out (see, for example, Fander Falconí, 2004 for a more detailed analysis of the liabilities of the oil industry).

### *b) Regional reasons*

The area occupied by Yasuní National Park is part of the vast Amazon bioregion, which Ecuador shares with seven other countries (Brazil, Bolivia, Colombia, Peru, Venezuela, Guyana and Suriname) and one territory (French Guiana). This means that its ultimate fate - whether its preservation or its destruction - is directly connected with the ecosystems of the Amazon rainforest. As part of a group of shared ecosystems, Yasuní is linked to regional biodiversity, climate dynamics and water cycles in the Amazon basin, the corridors of flora and fauna that run along the basins of the region's waterways, etc.

In the framework of the Andean Community, Ecuador joined the other member countries in adopting the Regional Biodiversity Strategy for the Andean Tropical Countries (Decision 523 of 7 July 2002). This strategy, which establishes various objectives for the conservation of biodiversity, has a number of limitations due to its underlying commercial orientation, and should therefore be rethought before it is carried out by the environmental authorities in each country in a coordinated manner.

Ecuador could play a leadership role in the region by protecting the Amazon and motivating other countries in the region to adopt similar measures.

*c) Global reasons*

On this level, the initiative's key contribution lies in the fact that keeping the ITT oil reserves underground means that they will not be burned, and this will prevent the emission of an estimated 400 million metric tons of carbon dioxide. At the same time, deforestation is another well-known cause of greenhouse gas emissions, and thus preventing the deforestation of Yasuní National Park would also directly reduce emissions.

These arguments relate to the country's international commitments, particularly those assumed under the United Nations Framework Convention on Climate Change and the Convention on Biological Diversity.

**The ITT Initiative as a public policy**

Given the importance of this matter and the new constitutional context, we believe that the ITT Initiative should be considered a public policy. This means granting it the same degree of

importance as other key components of public policy, such as health and education policy. The initiative should not be pigeonholed as a specifically environmental issue, because as we have seen above, it encompasses important aspects in the social and economic dimensions.

Despite the fact that the debate initiated by the Correa government emphasizes compensation for keeping the oil reserves underground, the proposal is essentially political and should be defended and developed in this terrain. While orthodox economic thinking contemplates both efficiency and equity, equity is usually relegated to the background. The ITT Initiative is aimed at achieving efficiency by making equity the first priority. In effect, the proposal would serve as the basis for a series of actions aimed at developing a model that would make it possible to overcome the inherent weakness of the dollar and the dependence on oil, and to promote *sumak kawsay* (well-being). This is essentially a national strategy; it requires an international component, but its motives and objectives are national.

Ultimately, the goal is to establish new foundations on which to build North-South relations based on justice, which is why *sumak kawsay* or well-being is one of the pillars upholding the initiative.

From a political point of view, the initiative could be described as unrealistic, and thus naïve or radical. Statements of this kind have in fact been made, which is why it is worth addressing them on a conceptual level. We could look, for example, at the position taken by Fontaine (2007), since it is one of the most highly elaborated. He agrees with us that this is a question of a political option, but he views it as an opposition between “utopian environmentalism” and a “nationalist oil policy”.

The Yasuní-ITT Initiative, however, cannot be described as a form of ‘utopian environmentalism’. First of all, while the demand for the protection of the area is one of the demands made by environmentalists as a civil society movement, it is also a mandate for the state itself, emanating from current national legislation and the new constitution - in other words, from the Ecuadorian people. The term ‘utopian’ in the negative sense of unattainable or fantastical is also not applicable, because the crisis in the global oil sector is obvious, and the growing scarcity of this resource is inevitable, as are the growing social and environmental costs of its extraction, such as global climate change. Consequently, the truly ‘realistic’ approach would be to acknowledge these problems, anticipate them, and seek out genuinely alternative productive solutions to replace oil. On the other hand, the term ‘utopian’, if interpreted as a horizon to be pursued and achieved as a way of breaking away from the restrictions of the current ideology of progress, is more than applicable.

Secondly, the opposition is not towards a ‘nationalist oil policy’. On the contrary, the ITT Initiative would regain full control over these resources and place them in Ecuador’s hands, thus averting the risks of dependence and subordination to transnational oil companies. Moreover, there is nothing nationalist about authorizing the contamination of the area or endangering indigenous communities.

In our view, the ITT Initiative is not only part of a national environmental policy, but also an ingredient for a new national energy policy, which does not exclude the oil sector, but places it in another context of diversified and plural energy resources (see Acosta, 2009).

## The limits of nature

It would be worthwhile to present a few considerations with regard to environmental limits. Nature has limits that the economy should not and cannot exceed. These limits may pertain to the local level, such as the extinction of Amazonian species or the oil industry contamination documented in many cases, including the contamination caused by Chevron-Texaco in the Ecuadorian Amazon (Beristain et al., 2009). They can also pertain to the regional level (for instance, alterations in the climate and precipitation patterns in the Amazon region as a whole), and the global level (where the best-known example is climate change, the result of energy over-consumption).

Conventional thinking is limited to the conversion of goods and services into tradable commodities, through the allocation of ownership rights, and does not incorporate the notion of environmental limits. However, a great deal of information has been gathered regarding the consequences of the over-use of natural resources and the capacity of ecosystems and the planet to cushion the impacts. This situation is the result of widespread self-serving behaviour and the inability to recognize that resources have limits or thresholds beyond which they will collapse.

## Some economic-environmental reflections

### a) *The limits of conventional economics*

The problem with environmental deterioration in a market economy is that external effects are not fully considered in its calculations, which serves to undermine the interests of future generations and the rights of other species. There is still a great deal of ignorance of the meaning of value (which is not synonymous with price) and of the multiple values and complex functions of ecosystems and species. In this context, cost/benefit analysis is not applicable, because it tends to grant zero value to what is unknown, or to grant purely utilitarian value to resources that can be exploited, as well as running up against problems in defining rates of discount or the timescale to be considered. Ironically, this kind of analysis applied to a biodiversity hotspot is one of the greatest threats that the latter faces. This fact has been stated on repeated occasions in Ecuador. For example, Fander Falconí warned in 2004 that some of the damages triggered by oil industry activity can be measured economically, and thus compensated, but others are simply immeasurable.

Finally, there is ever greater acceptance of the notion that introducing environmental services into the market would mean transferring to the asymmetrical market the responsibility for defining distributive aspects associated with their use. This could lead to a process of concentration of access to these resources and a consequent loss of sovereignty for the populations that use these ecosystems.

*b) Limits and possibilities of*

*economic compensation*

A substantial part of recent debate has focused on the need for “compensation”; in the event of a moratorium on oil drilling. While converting this priority into an indispensable condition for carrying out the ITT Initiative has positive aspects, it also has negative aspects. On the positive side, it is important to recognize that the initiative could ensure revenues for the state coffers, which could contribute considerably to 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 oil reserves.

But there are negative aspects, in that this “compensation”; would not necessarily safeguard and is not directly linked to local communities, or to protection or restoration of deteriorated areas which no longer have the capacity to provide sustenance for the population. In other words, there could be enormous sums of money received from the international community without this resulting in sound and effective environmental and social policies in the Amazon region. The “pro-compensation”; argument depends on trust in the government to fulfil its development commitments to the country’s most vulnerable sectors.

But reducing everything to the potential international economic “compensation”; means disregarding the other reasons that back up the proposal. It is like deciding to keep other constitutional mandates on hold until a certain amount of compensation or international aid is obtained. At the same time, this stance weakens the role of the state itself, since its capacity for action is made dependent on receiving international funding. Nevertheless, the “pro-compensation”; argument will meet with considerable acceptance both nationally and internationally, as long as the country suffers from extremely high rates of poverty. Many will share the philosophy that ethical decisions must reflect the current state of the system.

Yet the conservation of Yasuní National Park is important in and of itself, regardless of the whims and willingness to pay of the international community. The call for international economic compensation cannot be used as an excuse for inaction. Rather, it should be viewed as an opportunity for national and international action. A lack of international cooperation for financing sustainable development in Ecuador must be counted as a commensurable debit within the environmental debt. For example, it is possible to measure how much international investment is needed for the conservation of Yasuní and the amount of carbon dioxide emissions that will be prevented; the sum of these two values is the starting point for calculating the debt accrued.

Following this line of reasoning, if international economic compensation is viewed as a contribution, but not a goal in itself, then the ultimate responsibility falls on the Ecuadorian state, and not on the international community. The government cannot rescind on protecting the area with the excuse that the international community is mean, insensitive and stingy for not providing financial support. It must continue to move forward regardless. This calls for consideration in political circles of the central issues of inequality and environmental and climate justice, posited from a perspective that does not merely criticize, but also offers proposals.

This analysis does not imply that the authors deny the importance of international financial support. Rather, it is aimed at clarifying that this support should respond to the logic and conception of the preservation of the Yasuní area as a national public policy that coincides with an international policy of reducing carbon dioxide emissions. Therefore, international negotiations, and the instruments to take advantage of opportunities for financial support, must be adapted to this political mandate, and not the reverse - where national measures end up serving and depending upon funding from wealthy countries.

### *c) Climate change and the carbon market*

Among the potential options for securing the necessary funds for the initiative, there has been discussion around turning to the so-called "carbon market", created in the framework of measures to combat climate change. These markets are based on obtaining reductions in global greenhouse gas emissions by offsetting emissions generated by industries in the industrialized countries through the "purchase" of compensatory measures in countries of the South. 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. These emission reductions are used by the industrialized countries to meet their commitments under the Kyoto Protocol.

These types of measures have been developed through the so-called Clean Development Mechanism (CDM) created by the Kyoto Protocol - an instrument of the Framework Convention on Climate Change - and a parallel market for the buying and selling of "carbon credits" generated by actions that supposedly "fix" carbon in the South, such as the protection of native forests, reforestation, etc.

It could be postulated that leaving the ITT oil reserves underground would prevent the emission of a certain amount of greenhouse gases, and as a result, Ecuador could claim compensation for this action. However, this type of action is not included among the existing mechanisms established under the Kyoto Protocol. On the other hand, the amount of carbon fixed depends on the size of forest cover, which means that from this standpoint, the contribution made by Yasuní National Park would be underestimated, since the calculations would not include the oil that would not be burned (and the emissions not released as a result).

In the event that the decision were made to pursue this option, it would be important to keep in mind a number of problems inherent in negotiations around carbon fixing. There is considerable controversy around the effectiveness of this strategy, since there is no sound evidence of a substantial contribution to reducing emissions, because it is not fully clear how much carbon dioxide is reduced, if that is indeed what happens (see, for example, Schneider, 2007; Ward & Victor, 2008). There is also the possibility that activities like these can generate perverse effects ('leakages', in the terminology of the Kyoto Protocol, or 'second-best' effects, in mathematical microeconomics). For example, slashing and burning a primary forest in order to establish a eucalyptus plantation was not originally contemplated under this protocol. The 'carbon market', created as a means to evade climate change conflicts, is in fact a new business created on the back of the climate change disaster, since pollution-creating corporations and intermediaries are raking in massive profits despite the fact that there is no real proof of substantial progress in this regard.

The voluntary carbon market is even more dangerous than the market created under the Kyoto Protocol, since the latter is at least somewhat regulated, in that it sets a quota for each country, which then sets quotas for corporations. The voluntary market, however, is growing without any form of regulation, which diminishes the options aimed at establishing emissions limits for different countries. In other words, it obstructs the development of effective environmental policies, which are ever more crucial for confronting the growing threats to the environment.

The current international framework includes a condition that significantly limits the application of this strategy to the Yasuní-ITT case. Basically, 'carbon credits' serve to offset emissions created by industrialized countries and transition economies, but do not apply to the source of the fuel that is burned in these nations. Once the oil is extracted in Ecuador, it can be consumed in any part of the world, and thus there is no way to state that it will reduce emissions in one particular country or another. The current mechanisms are based on specific undertakings such as factories or sanitary landfills. There is no global

stocktaking of the use of fuel, nor are there any negotiations underway to establish limits on fuel consumption as a way to combat climate change.

If limits on fuel consumption were established, then international negotiations, especially with regard to climate change, would offer a number of opportunities, which are discussed below.

### **POSSIBLE MEANS FOR THE**

### **IMPLEMENTATION OF THE INITIATIVE**

As we have seen above, it is clear that the implementation of the ITT Initiative requires, on the one hand, positioning it clearly as a public policy, and on the other, identifying means and instruments to make it viable. There are many different options available for bringing the initiative to the point of implementation, and this diversity is not a problem in itself, since it makes it possible to avoid depending on a single pillar of support. The challenge is to ensure that the instruments can successfully work together and mutually complement one another, and that if one of them should fail, the others would allow the initiative to continue moving forward.

Presented below is a summary of the main means of instrumentation available. Some of them, particularly those related to financing, will be explored in more detail in subsequent sections.

Main means of instrumentation:

a) Legislation

In accordance with the new Ecuadorian Constitution, the preservation of Yasuní National Park is clearly a constitutional mandate, and should be expressed as a national public policy. This would require harmonizing old legislation with the new constitution, and identifying and filling any current legal voids.

b) Financial support

Financial support mechanisms should be viewed as contributory mechanisms that strengthen the proposal but are conditioned by the political mandate. There are numerous options in this area, which are also mutually complementary. We could mention, for example:

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The creation of a state fund specifically aimed at the protection of the area, which would operate in the same way in which state budget allocations are made towards other public policy areas, such as education or health.

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Extraordinary funds, under the premise of compensating or counterbalancing the resources not generated by the commercial exploitation of the ITT reserves.

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Funds obtained through bilateral and multilateral international cooperation, and from other donors (individuals, companies, etc.).

c) New stances in

### international negotiations

This is a crucial issue, given that the strengthening of the proposal and the search for financial resources will require international support. This aspect is discussed in greater detail below; we could briefly mention here the need for actions in the framework of the Amazon Cooperation Treaty (of which Ecuador is a member), at the South American regional level, and at the global level in discussions on climate change. These actions should be aimed at attaining financial support for the moratorium on oil drilling on the basis of a global accounting, and this point is not currently under discussion for the energy sector. This measure requires coordination with other Latin American countries and delicate negotiations in the framework of the G77+China.

### **Financing structure and options**

This proposal is aimed at seeking a political agreement to establish one or more funds that will make it possible to fulfil the stated objective. The possibilities presented here do not comprise an exhaustive list of potential options, some of which could even emerge as a result of the discussion promoted.

#### *a) Administration*

The state will negotiate and administer the funds involved in the ITT Initiative to keep the oil underground. The responsibility for conservation of this area will not be transferred to national or foreign private entities, nor will the formulation of conservation policies or the administration of protected areas.

It should be established from the beginning that the ITT Initiative is first and foremost an Ecuadorian matter, aimed at protecting the peoples living in voluntary isolation and the biodiversity of the area. However, at the same time, it is a matter of international importance, viewed from the perspective of the co-responsibility that falls, above all, on the wealthy nations, who are directly responsible for the lion's share of environmental imbalances.

### *b) Sources of financing*

The fund could draw on various sources, among which we would like to mention the following:

#### 1. External funds:

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Contributions from the United Nations system and multilateral development banks. For example, the GEF.

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Contributions from bilateral or multilateral cooperation. This includes funds contributed by governments (such as Germany intends to do) and by groups of countries.

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Contributions from individuals, civil society organizations, companies, etc., acting on their own behalf.

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Funds that could be created under international mechanisms in the framework of the next climate change protocol (which should replace the Kyoto Protocol) aimed at preventing carbon dioxide emissions. This fund could be the largest, since it would involve both the oil reserves left untapped and the forests preserved.

## 2. Funds generated by a global taxation system:

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Ecotax

3. Funds from within Ecuador

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Restructuring of the foreign debt through the issue of a special bond

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Issuing of "SUCREs" backed by ITT oil

New mechanisms could also emerge through the mutual complementarity of other mechanisms. For example, citizens of the wealthiest nations who contribute to the ITT Fund could receive a tax exemption in their countries of origin, which would act as an incentive for the voluntary contribution they are making to help curb the problems caused by global warming.

The point we want to emphasize is that there are different possible sources of financing for a fund that would economically sustain the ITT Initiative, and that these are not mutually exclusive, but rather complementary.

c) *Mechanism and guarantees*

The Ecuadorian state would issue non-negotiable certificates (Guarantee Certificates) in exchange for foregoing exploitation of the crude oil reserves in Yasuní National Park. There should of course be some guarantee for filing claims in the event that the state does not fulfil its commitments (in other words, if the oil is extracted). In order to manage the resources involved, a temporary trust fund could be established until national investments to promote sustainable development are budgeted for.

In this regard, it is important to stress the need to assure all those who contribute to creating this ITT Fund, whether individuals or entities, that the resources obtained will be properly used. All contributors must also be certain that they will get their money back if the Ecuadorian state does not fulfil its commitment. In this case, the sanctionary measures established upon the creation of the guarantee would be applied. In the event that a future Ecuadorian government were to extract the oil, the revenues generated from its sale should be used first and foremost to reimburse the contributions received. Any payments for not emitting carbon dioxide would continue to flow through future governments and could serve as a strong incentive to respect the guarantee.

The administration of the fund should also include spaces for the participation of representatives of Amazonian communities, especially those affected by oil industry activity, and delegates from citizens' organizations.

The funds should be used, firstly, to ensure the environmental and social protection of the

Yasuní area; and secondly, as a priority, 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.

This fund cannot repeat the history of criticism, inefficiency and non-transparency of FEIREP (the Fund for Stabilization, Social Investment and Production and Debt Reduction), which ended up trapped in financial speculation and was aimed almost exclusively at maintaining the servicing of the external and internal public deficit (Falconí & Ponce, 2005).

d) *Amount of the fund*

It would be worthwhile to comment here on the volume of resources that should be managed with the fund (or funds). It is possible to distinguish at least three possible scenarios:

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The amount would be defined by the money needed to implement the measures to protect the environment and safeguard local communities.

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The amount would correspond to offsetting the revenue that the state would forego by not exploiting the ITT oil reserves. This option would be backed by some as a form of "compensation";

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Finally, it is even possible to consider an ample fund defined by the money needed to provide the country with more environmentally friendly infrastructure, in order to help it through the bottleneck until it can be categorized as one of the countries with the highest ranking on the UNDP Human Development Index.

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

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

The third option is the most realistic for upholding the guarantee that Yasuní National Park will never be exploited for the natural resources located there.

On the other hand, calculating the reference value of the expected income from exploiting the reserves is extremely complicated, and could produce different results. For instance, it would be necessary to determine if the calculations would solely consider the income through potential revenues from the sale of the oil, or if they would also consider (or not) the investment needed for the extraction of the oil and the construction of infrastructure (such as an electrical power plant operated with heavy crude residue, in the Amazon itself). Even the reference price of oil must be considered.

We must not forget that the 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 dollars (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 dollars (on 22 December 2008). This aspect is further evidence of the limitations of conditioning the initiative to mere 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.

It would be worthwhile to comment and expand upon some of the financing options mentioned above.

Restructuring the foreign debt through

### the issuing of a special bond

This mechanism would involve restructuring Ecuador's foreign debt to convert it into special government bonds. These bonds would 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. This proposal would be a tool for political negotiations at the international level, incorporating, for instance, the decision made as a result of an audit of the country's debt: to not pay back illegitimate debts and recognize the others.

This 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 and used to increase the funds available for putting the proposal into practice.

The terms of the restructuring should be considered with a great deal of caution. A debt swap, for example, would recognize the legitimacy of the portion of the foreign debt being restructured. It is important to remember that the basis for the issuing of global bonds was fraught with illegalities, which means that restructuring this type of debt would simply grant it legitimacy.

If the mechanism is successful, it 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

This would be an alternative mechanism based on President Correa's proposal to the OPEC member countries to charge a tax on every barrel of oil exported. The funds raised through this tax would be used to create a fund to finance conversion to other energy sources in these countries and to protect fragile ecosystems - of which Yasuní is a perfect example - from oil drilling. This tax has become known as the Daly-Correa Tax in recognition of the two men behind it: economist Herman Daly for developing the concept and Correa for turning it into a political initiative.

For his part, Brazilian Environment Minister Carlos Minc made a proposal along similar lines 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. It is interesting to note that if it were not for the creation of the OPEC oil cartel in the mid-1960s and the consequent

fall in demand, the impacts of climate change could have been further accelerated. Thus, unexpectedly and ironically, OPEC has served an environmental purpose. The funds gathered through the tax 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 channelled directly to the ITT Initiative.

Nevertheless, it could be difficult gain acceptance for this measure, since oil prices are set in accordance with global oil demand, which means that in the end, a large part of the tax will fall on the OPEC oil-exporting countries themselves. As a result, the viability of this mechanism depends not only on the oil-exporting countries, but also the oil-importing countries, and especially the largest importers (such as the United States, Japan and Europe), who must be willing to accept that a portion of the final price of crude oil will be used to finance funds like the ITT Fund.

### Issuing of "SUCREs" with the backing of the ITT reserves

In Latin America, in the framework of the creation of the Bank of the South and a Southern Stabilization Fund, discussions have begun on the creation of the Single Unit of Regional Compensation (SUCRE), a common currency that would facilitate trade flows within the region and spur a progressive de-dollarization of interregional trade and financial relations. This initiative could pave the way towards a regional monetary and financial system, which should have its own financial code.

The ITT Initiative could be linked to this system as a form of backing; in the case of Ecuador, the common currency would be backed by the crude oil reserves in Yasuní National Park. In this way, 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 securitization of the reserves, since it is based on the idea of not exploiting them.

### **International negotiations**

Many of the different potential facets of the ITT Initiative require Ecuador to play a strong leading role in international negotiations. In our opinion, this international component is essential for the proposal, which is why it is worthwhile to review some of these aspects.

The fact that this 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. This 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 this context it is worth considering the case of PPG7, the Pilot Programme to Conserve the Brazilian Rainforest, an initiative undertaken between the Brazilian government and the

industrialized countries of what was then the Group of Seven (G7). The programme, initiated in 1992, is very ambitious, and has the backing of a number of countries (especially Germany) and the World Bank. It is a good example of international coordination for the environmental protection of an ecosystem of key importance for Brazil, but also on a global scale (see, for example, Andrade Abdala, 2008). On the basis of this example, a number of options for Yasuní-ITT could be explored, such as establishing a similar specific mechanism for this area, an analogous programme for the Ecuadorian Amazon as a whole, etc.

In the Andean region, the 2002 commitment for the conservation of biodiversity adopted by the Andean Community constitutes a substantial basis for negotiating support and coordination. On a continent-wide level, it would make good sense to present the initiative within the Union of South American Nations (UNASUR), a political forum that has addressed considerable attention to energy issues. Obviously, in these efforts there will be allies more supportive of the mandate to protect natural resources, while in other cases, the interests of other oil-exporting countries may lead them to diverge from this stance and promote the exploitation and sale of the oil reserves; some may even see it as an opportunity for their national oil companies to operate in the Yasuní area. We are fully aware of these discrepancies and tensions, but in any event, the point we want to stress is that the proposal will have a much greater chance of succeeding if it has the support and encouragement of neighbouring countries.

On the international level, the first arena to consider would be the negotiations held under the Framework Convention on Climate Change. There are currently heated negotiations underway to reach a reformulation of the Kyoto Protocol. As discussed above, the current mechanisms contemplated in these agreements cannot easily be applied to an initiative like the ITT oil moratorium, since the commitments to reduce emissions fall specifically on the industrialized countries and transition economies, and there is no procedure for assessing and acknowledging the reduction of emissions achieved by preventing the exploitation and sale of oil reserves.

While these and other aspects pose challenges, it is also true that the political climate of these negotiations has changed, and there is growing pressure for more ambitious commitments. At the same time, there are many alternative mechanisms beginning to be discussed. Despite some conceptual limitations, a 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 paths are chosen, it is important for concrete decisions to be made, and for Ecuador to begin presenting formal proposals.

In any of these cases, we believe that a change in the tone and direction of Ecuador's negotiating stance is needed. It is not advisable to present a proposal of this kind by stressing a demand for compensation as the main point, or emphasizing the "sacrifice" that the country would be making. This stance is counterproductive, since it is based on stressing the environmental importance of the area and the need to protect the indigenous communities living there, and as a result, many could question why it is necessary to compensate a country that has already recognized the importance and urgency of this endeavour. In other words, it is not the international community that is asking Ecuador to make an additional or extraordinary effort; rather, it is Ecuador that has recognized, through its own decisions and legislation, the enormous importance of Yasuní National Park. Moreover, this posture reinforces the growing impression that countries of the South are only willing to undertake measures to combat climate change if the industrialized nations pay for them.

Ecuador is faced with an opportunity to exercise leadership in international negotiations, but in order to succeed in this task, it must abandon the discourse and practices of the past.

We are facing a moment where it is possible to promote and contribute to establishing new commitments and agreements, hopefully mutually binding, to fulfil international obligations. This will require Ecuador's diplomatic corps to play a much more active and leading role, by formulating conceptual frameworks, proposing means of implementation, and participating forcefully and persistently 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.

In the negotiations around climate change specifically, Ecuador could promote a global focus and national goals for progress towards sustainability, which would bring about substantial reductions in greenhouse gas emissions. Efforts should be focussed on "carbon neutral" countries as a means of achieving better development indicators. International discussion of the initiative could inspire other countries, and provide an example of such aspects as making sovereign decisions to overcome dependency, creating the conditions for the financing of similar proposals, and promoting and strengthening the principles of shared but differentiated responsibilities.

### **BY WAY OF CONCLUSION**

This paper is aimed at revitalizing and deepening discussion around the ITT Initiative to keep the oil reserves in Yasuní National Park underground and unexploited.

We believe that this initiative is viable, and should be approached as a public policy. The social and environmental importance of this area has been argued on many and varied fronts, and national legislation, particularly the new constitution, makes the protection of this area a national political imperative. Therefore, the question now is how to put this mandate into practice.

At the national level, we believe that the ITT Initiative is a step on the path towards a new model of development based on the concept of *buen vivir* or well-being. But the initiative is also important on the regional level, since Ecuador is one of the Amazon basin countries, and on the international level, because of its impact on climate change and global biodiversity.

The economic aspects of the initiative have been analyzed here from various perspectives, with particular attention to some of the tensions that have emerged in this debate around issues such as economic valuation. We recognize that obtaining funding will strengthen the possibilities for implementing the initiative, but based on the conception of the initiative as a public policy, financial questions cannot be used as an excuse for inaction.

The importance of preserving the Yasuní area has been established by government authorities themselves, and on more than one occasion. The call for international compensation must therefore be understood more as a proposal within the framework of international policies aimed at climate justice, rather than a prerequisite for protecting the area, since the Ecuadorian state fully recognizes the need to protect and conserve the area, a goal that is even established in the country's legislation. In any case, it is important to stress 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.

We concur that the greatest efforts should be directed towards visualizing various political and economic options for creating one or several funds, with different sources but mutually complementary, such as international agreements that contribute to the goal of guiding Ecuador along the path towards well-being for all and a post-oil economy. This means promoting concrete actions that will open doors to a range of options for international political backing and also financing.

In these efforts we believe that it is crucial for Ecuador to play an active role in international negotiations, both with neighbouring nations in Latin America and in global discussions around climate change. There are regional experiences that should be taken into account, and coordination with other countries is essential, but what is needed above all is Ecuadorian leadership in regional and global negotiations.

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## The authors

*Eduardo Gudynas* is a senior researcher at the Latin American Centre for Social Ecology (CLAES), Uruguay.

*Joseph Vogel* is a professor in the School of Economics at Universidad de

San Juan de Puerto Rico-Río Piedras, and a professor at FLACSO-Ecuador.

*Esperanza Martínez* is the coordinator of Oilwatch and a member of Acción Ecológica.

*Alberto Acosta* is a professor and researcher at FLACSO-Ecuador, former president of the Ecuadorian Constituent Assembly, and former Minister of Energy and Mines.

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