

OECD Workshop

**MULTILATERAL ENVIRONMENTAL AGREEMENTS AND
PRIVATE INVESTMENT**
ENCOURAGING BUSINESS CONTRIBUTION TO MEA IMPLEMENTATION

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**Economic incentives and increasing business involvement in the
conservation of fauna and flora.**

Complying with CITES is a good business

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'The man who looks at an animal and sees beauty is a man who has eaten well'
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Background

The Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES) has regulated trade in many of the world's most commercially valuable plant and animal species since 1975. CITES relies on a rigorous and transparent system of permits to manage this trade. Using science and law as a basis for the issuance of such permits, it assures the long-term survival of wildlife species in trade and supports sustainable development. CITES rules and procedures have evolved into a well-established mechanism for ensuring compliance and effective enforcement. Its membership has grown to include 167 countries.

Under its permit system CITES now regulates international trade in 4,100 animal and 28,000 plant species and prohibits commercial trade across borders in some 300 endangered animal and 600 plant species.

A key to the success of CITES has been its improving ability to balance conservation and sustainable trade. By applying different strategies to different situations, CITES has evolved to make species protection and sustainable development mutually supportive. Crises transformed into success stories include the South American vicuña and the Nile crocodile, two species whose survival was assured when CITES transformed their wool and skins, respectively, into sustainably managed commodities of benefit to local communities. Our experience has shown that poor people in rural areas who are ultimately responsible for the management of wild species and associated ecosystems must receive a major share of the economic benefits derived from their use otherwise they will adapt their behavior via actions that are not necessarily always legal (e.g. land conversion, illegal killing, poaching, illegal trade, corruption, etc.).

More recently, CITES effectiveness in managing trade in wildlife species has been applied to few high-value commercial fisheries and timber species, as an ultimate measure to reverse their precarious situation and ensure a sustainable supply.

Involving the private sector in wildlife conservation

The international wildlife trade, both legal and illegal, is a dynamic and varied economic activity and it is estimated to be worth billions of dollars annually (commercial fishing and the timber trade aside). Commerce in wild species constitutes the main source of revenue for poor people in certain rural areas and involves millions of specimens of wild plants and animals. The most valuable species are traded in low volumes but at high prices, e.g. caviar, mahogany, hunting trophies, etc. One "economic" argument for over-exploitation is that the local communities and landowners are receiving too little cash for their products, and hence increasing their income will stimulate conservation.

The industries involved in wildlife trade are small to medium sized. Some of them operates in the form of "industry associations" and are at the core of many successful initiatives under CITES -- e.g. crocodilians, sustainable use etc. In developing countries many of them face huge challenges in accessing international markets. Quality and safety standards are increasing constantly and small and medium sized companies in developing countries often lack adequate infrastructure, managerial skills, and insight in the market structures. Private capital that could finance these companies in overcoming these barriers is dwindling.

However, there are several examples of mature industries and markets for products and services derived from wild fauna and flora (e.g. food supply, healthcare, fashion, collecting, ecotourism, pets market, trophy hunting, traditional medicines, fisheries, aquaculture, handicrafts and miscellaneous array of other species uses). Many others are growing, offering opportunities for generating alternative sources of income and for production processes based on sustainable use of CITES-listed species.

There is increasing consumer and industry interest in goods that meet quality and sustainability criteria. For example, products that provides some assurance to consumers of benefit sharing with local communities and other actors throughout the supply chain. CITES is exploring ways to improve its international structure for certification, tracking, and monitoring of sustainably produced wild species commodities. To this end, it sees private investment as key to develop:

- ** Best practices that foster the entire value chain
- ** population surveys: conservation
- ** technology transfer: production systems
- ** information systems and market analysis
- ** chain of custody: compliance and enforcement
- ** strengthening legal trade for illegal trade eradication

CITES is working in the development of practical tools to support the efforts of interested countries to better understand and articulate the linkages between wildlife trade and species conservation in order to move beyond a single focus on penalizing unsustainable trade through sanctions towards mechanisms to reward sustainability.

Economic incentives and trade policies

Over the past few decades, there has been an increasing recognition that economic incentives could make an important contribution to achieving the goals of CITES. This workshop is timely, as the debate has progressed from the 'why should we use economic incentives' to the 'how should we'?

The field of economic incentives for wildlife management is still evolving and developing its own lingua franca but we can easily say that in the context of CITES, economic incentives include the assignment of well-defined property and use rights, tradable catch and export quotas, export taxes, access fees and user charges, as well as the use of positive incentives like compensation schemes for wildlife-generated damages. Generally, they complement rather than replace traditional regulatory regimes to govern wildlife trade mainly based on command and control regulations.

Given the continuing importance of the socio-economic aspects of species loss and their linkages with poverty alleviation strategies, particularly in the mega-biodiversity countries, the Conference of the Parties to CITES adopted a Decision to review national policies regarding the use of and trade in specimens of CITES-listed species, taking into account economic incentives, production systems, consumption patterns, market access strategies, price structures, certification schemes, CITES-relevant taxation and subsidy schemes, property rights, mechanisms for benefit sharing and reinvestment in conservation, as well as stricter domestic measures that Parties apply or are affected by. The support of the private sector is crucial to achieve the expected goals of this important task.

Six basic assumptions on the use of economic incentives

1. The use of economic incentives is the prerogative of the countries. Each country decides whether, how and to what extent to incorporate those incentives in its wildlife policies and legislation.
2. Economic incentives are not a panacea and will simply not work without proper and rigorous design and appropriate administrative back-up. There are no blueprints or universal answers and the use of economic incentives depends on the particular instrument, its design and the context in which it operates.
3. The potential for applying economic incentives in the context of bio-resources management and conservation remains too often theoretical and lacks reality checks. The question is: can we expect a financially-stretched country, with rampant illegal wildlife trade, and few funds and little institutional and legal back-up to have the power to intervene in markets? And the answer must surely be: 'no'. So what is next? Another central question is how to manage wildlife trade in order to minimize its negative effects on wild populations and to maximize its potential as a conservation tool without collapsing the industry?
4. Better understanding is needed of the linkages between trade and use patterns, changes in stocks owing to local and national interests and habitat changes owing to other human activity. This becomes important when there is competition for the land used by the species, or when the species causes local damage.

5. Well-designed economic incentives should allow remuneration and prices to reflect costs more fully, including conservation costs. However if discriminatory or not well designed, these economic incentives could negatively affect market access or reduce economic welfare.
6. Cooperation and collaboration with the private sector is essential. It could support the governments in designing, financing and implementing targeted strategies for the use of economic incentives.

Examples of economic incentives for wildlife management and conservation

1. **Tradable quotas:** Tradable quotas could be used by countries that establish annual export quotas for certain species. Tradable quotas are the rights or allowances to undertake sustainable harvesting and non-detrimental exports restricted to a given species and location. To the extent that quotas are set on how much of a given species is harvested, those quotas should be (i) transferable between recipients, to ensure that they go to the highest-value use (if there are distributional concerns, the quotas could initially be given to the group a particular country wants to favour, and they could re-sell them); and (ii) possibly sold (at auction or via some other mechanism) to generate revenue.

Giving portions of the national export quota away on a first-come first-served basis and not allowing re-sale is inefficient and tends to give windfall gains to politically well-connected groups. This is irrespective of how the quota itself is set.

2. **Property rights:** If Parties want to ensure that wildlife trade generates revenues for conservation in some particular way, then 'secure property rights' are a key element. Property rights include the right to use a particular species, to permit or exclude its use by others, to collect the income generated by use of the species, and to sell or otherwise dispose of the specimens.

When markets exist, but do not succeed in conserving a valuable resource, poorly defined, weak or missing property rights can be to blame. In the absence of secure property rights, such as under open access conditions, it is well documented that poachers harvesting valuable specimens of wild species can enjoy profit margins that make any effort to elude enforcement controls worthwhile.

The assignment of property rights to local communities can help to reduce enforcement costs by providing resource owners with an incentive to protect the species. Those rights could include self-administration of resource use and the right to sell hunting licences.

3. **Certification:** Making a CITES brand name and CITES a credible certification scheme for products derived from wild fauna and flora could provide an opportunity to engage market forces to achieve the Convention's goals. This is effectively happening in some cases by default (re-exporting of caviar with specific branding using the CITES logo is primarily an enforcement tool but has had the positive side-effect of reassuring consumers). Development in this direction needs to be approached in a cautious, planned and well-resourced manner, and be consistent with relevant WTO rules.

According to ISO, the CITES permitting scheme as set out in the Convention is an example of a regulatory certification scheme, with government Management and Scientific Authorities acting as 'certifiers' for trade in products using 'specified requirements' as detailed in the Convention – these requirements are principally that the trade is to have a 'non-detrimental

effect' on the species concerned and that the product is 'legally obtained'. However, it needs to be implemented in a credible way – e.g. standardization of practices for the undertaking of non-detriment and legal-acquisition findings. This would necessitate Management and Scientific Authorities acting independently of the commercial interests of traders and consumers.

4. **Recovery cost of CITES procedures:** Concerning the costs and benefits of implementing CITES, generally, most governments appear to shoulder the majority of the costs of issuing CITES permits and certificates, but governments could charge for the permit and thereby obtain revenue from the process. The pricing system could be set up so that the price of the permits reflects the costs of establishing the biological status of the resources. This means that the price of the permits could be used to cover the costs of effective implementation of CITES.

The costs of effective implementation of CITES entail the following:

- a) Scientific and technical costs – incurred in, for example, assessing and monitoring population levels of species, analysing the causes of declining populations, conservation and management activities (e.g. restoration of ecosystems, reintroduction programmes, compensation or incentive programmes for rural communities in contact with reintroduced wildlife, educational and capacity building programmes);
- b) Bureaucratic costs – for Parties these include the costs associated with processing applications for, and issuing, permits and certificates, managing permit information from issued/cancelled permits and certificates, managing national registers, reporting to the Secretariat, responding to the Secretariat's requests for information and the administrative costs of establishing trade legislation;
- c) Compliance and enforcement costs – these include the management costs of staffing, training and equipping personnel for monitoring and enforcement, and collaborative activities with other authorities, such as police and Customs officials, in enforcing CITES export and import regulations and prosecuting violators of trade regulations. Operating an effective enforcement system is one of the major costs to Parties.

On the other hand, the regulation and control of international trade in specimens of CITES-listed species gives the Parties also the ability to raise additional revenue via taxes. It is recommended that Parties coordinate between them the establishment of such taxes so that they do not 'compete away' the monopoly and remove their ability to collect this money. It has been suggested that the CITES Secretariat could even act as the channel by which the Parties agree on a joint tax scheme.

Strategic partnerships for further cooperation on economic incentives

The CITES Secretariat's experience shows that the use of economic incentives requires the development of strategic partnerships and a sustained exchange of information with international organizations, civil society and the private sector. A continuous dialogue needs to develop between companies, investors and regulators to determine how and what kind economic incentives should be relevant for adequate wildlife management.

The CITES Secretariat is collaborating on these issues with global and regional organizations working on issues related to wildlife trade. Efforts have been made to gather the experience gained by countries and with other Multilateral Environmental Agreements – MEAs (e.g. CBD, Ramsar, UNFCCC, etc.), inter-governmental organizations (UNEP-ETB, IUCN, World Bank, UNCTAD-BIOTRADE, OECD, FAO, ITC, IFC), non-governmental organizations (TRAFFIC, IIED, Fauna and Flora International, ISO, WWF, etc.) and researchers (universities and think-tanks e.g. BIOECON, RFF-Resources for the Future, etc.).

This constructive partnership has been focused on the exchange of experiences in the design and use of economic incentives for sustainable management of wild fauna and flora, compilation of case-studies, best practices and lessons learnt, as well as the development of practical principles and operational guidance.

Final considerations

CITES has evolved over the past 30 years and some important lessons have been learnt. Firstly, there has been an increased recognition that if properly chosen, designed and implemented, economic incentives (EIs) could make an important contribution to structure wildlife markets for the sustainable use of wild fauna and flora. Secondly, trade is often perceived as a threat to species survival, but it could also be an opportunity to help conserve them. In certain cases, non-detrimental trade may offer the best potential for conserving CITES-listed species in the long term. Finally, CITES rules are not isolated vis-à-vis the international law system and are affected by previous and ongoing political negotiations in other fora as well as by the different interests of developing and developed countries.

The CITES Secretariat is concerned that Governments and private sector hardly consider the wildlife sector in the process of policy and strategy formulation for national development and that sustainable use of CITES-listed species are not always seen as relevant in the context of poverty alleviation. The lack of financial resources for wildlife conservation is but one symptom of this problem. There is a very worrying and rapidly growing gap between the increasing number of activities and results that the international community expect from developing wildlife-producing countries and the means that are made available to fulfil these expectations. There is not compensation for the global benefits provided by those countries.

If I were to convey a single message to this timely workshop, it would be that CITES has a visible and positive impact on wildlife conservation, on poverty reduction and on sustainable development and is therefore worth investing in. Yes, there is a price. If the global community wants wild animals and plants of the developing world to be shared resources and if it wants them to be a shared responsibility then the bill for their management and conservation needs to be shared as well.