



Forest Stewardship Council®



Using fiscal incentives to promote sustainable forest management in tropical countries, why and how

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Alarming news: forest degradation larger contributor to climate change than deforestation. Tropical forests have become a net-emitter.

All ITTO members support sustainable forest management – in the context of ITTO, CBD, UNFF, SDGs, the Paris Agreement. In national forest policies.

Progress with SFM is slow.

FAO reports: Increases of areas with “long term management plans” but no guarantee of quality and implementation.

Forest Certification also increasing, but slow, only

Governments have a **range of tools** to implement objectives:

- Legislation, regulation of forest management rights and practices;
- Fiscal tools, which include taxation, subsidies, etc.;
- Public procurement, giving preference to products from sustainably managed forests;
- Education/Training
- International cooperation

All important to create a **level playing field** for SFM

Level Playing Field is important precondition for SFM:

Ability to compete with illegal loggers, with unsustainable forest management practices.

SFM can create efficiency and cost savings, but often the extra costs are dominant:

- Investments in environmental activities and monitoring
- Set-aside areas for natural regeneration and permanent protection
- Less harvesting
- Training, better labour conditions
- Benefits for forest communities
- [certification auditing costs]

Role of government to create level playing field is justified:

SFM provides **services to society** as a whole:

- ecosystem and social services for benefit of the population
- mitigation and adaptation of climate change
- safer, better, and, official, jobs
- reduction of corruption and illegal practices.
- increased export opportunities

One more reason: *“Perhaps the greatest reason for countries failing to retain the timber value has been their inability to collect the revenues due to them. It is rare for countries to collect more than 20% of their entitlement due to corruption and systematic evasion.”* (FAO, see discussion paper).

If SFM becomes the rule, there will be more transparency, less evasion, government revenues might increase.

FISCAL INSTRUMENTS FOR SUSTAINABLE DEVELOPMENT – NOT NEW BUT NOT USED ENOUGH

Famous examples:

Germany: increased taxes on use of energy, and reduced specific taxes on incomes, to avoid negative social impacts on for lower income groups. Followed by financial tools to ensure level playing field for renewable energy production.

Costa Rica: fuel taxes to finance programmes for forest restoration.

In FAO-ITTO study on concessions in Latin America: examples of **Brazil** and **Peru**, supporting SFM.

Certification can help

- to promote SFM
- to ensure fiscal incentives are not abused

Because of:

- independent auditing according to international standards,
- reducing the burden on public authorities,
- increases global acceptance.

In Guatemala, certification is precondition for communities to get support.

But other evidence can apply as well, see Peru, Costa Rica....

What is in the toolbox for SFM?

- reduced access payments for concession holders
- reduced guarantee bonds
- reduced harvesting fees
- tax reductions/waivers (on equipment, on salaries, on sales, on profit.....)
- subsidized loans and interest rates and loan guarantees
- payment for ecosystem services
- co-financing of forest road construction (*in particular when management plans are explicit about limiting the negative impacts of such roads*).
- ???????

2016 Latin America study on concessions for FAO and ITTO:
“incentives in the form of tax breaks, fee reductions and subsidies have been successful in reducing the cost of operating a concession and improving the likelihood of profitability.”

Example from Brazil (natural forests):

for concessions (since 2014):

- a. Certification is an “indicator for bonification”: helps to win the tender for a concession. Certification will then become a part of the concession contract.
- b. Possibility of a (max.) 20% reduction in the annual harvesting fees as long as certification exists.

[not from FAO study]

One of the recommendations in the 2016 African concession study also done for FAO-ITTO is that: “A **reduced area tax** could be granted to firms that go beyond legal requirements and get independent certification of their forest concession. The Government will have to decide what certification system it will endorse and what the duration of the tax rebates for certified firms will be. It is clear that this measure would strongly increase certification which in turn will result in an acceleration of forest management plan implementation, a pre-condition for certification.”

Beyond forest management – mobilise forest industry to source from SFM:

Fiscal incentives can support producers/exporters, so that they can, in their turn, provide a price premium for certified/SFM proven material.

- public procurement requiring domestic certified products --- if necessary introduced gradually
- free training and other practical support to achieve certification for smallholders, and communities.
- Lower/no VAT on certified products
- Reduced/waived export fees for certified products.
- ???

How to finance fiscal incentives?

Fiscal incentives will reduce income and/or increase expenditure for government.

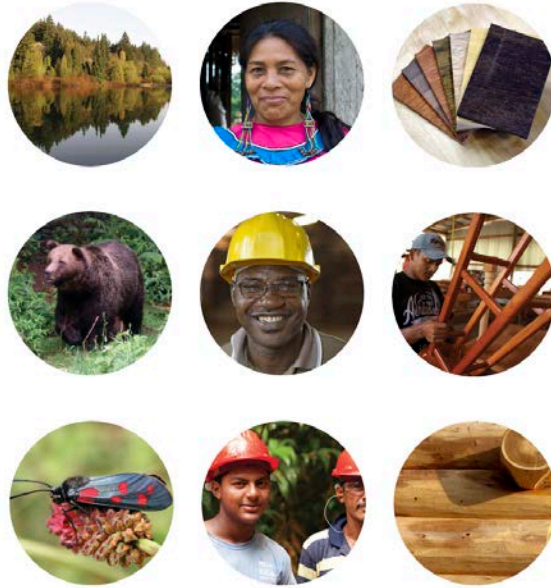
Success can mean “earning effects”: more effective tax collection, increased exports, employment, wages, investment.

Tax reductions can be sponsored with increased taxes for non-sustainable management/products, doubling the impact on the level playing field.

Special international assistance??

CONCLUDING:

1. SFM needs a level playing field in a real world of imperfect forest laws and imperfect enforcement of such laws.
2. Societal advantages of SFM justify government intervention.
3. Fiscal incentives can create level playing field – provided they are substantial, reliable and with solid evidence (certification + ??).
4. Examples exist, much more can be done.
5. Include also the processing industry – the demand side.
6. Financing is key issue: domestic only, or also international support?
7. Can ITTO play a role in research, guidance, trainings?



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