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Meeting: Ms. Kathryn Fuller, President,
WWF-USA and Mr. Jonathan Lash,
World Resources Institute

Monday, January 5, 1998
4:30 - 5:00 p.m.
MC 12-755 Meeting Room
(Beside Mr. Sandström's Office)

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A. CLASSIFICATION

- [x] Meeting Material
- [ ] Trips
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- [ ] Corporate Management
- [ ] Communications with Staff
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- [ ] Other

B. SUBJECT: MEETING: MS. KATHRYN FULLER, PRESIDENT, WWF-USA AND MR. JONATHAN LASH, WORLD RESOURCES INSTITUTE (B) (N) // TIME: 4:45 - 5:15 P.M. // VENUE: MC 12-750 (OFFICE) // CONTACT: KATHRYN FULLER (RUTH @ 778-9664 // FAX: 778-9637) // JONATHAN LASH (PATTI ADAMS @ 662-2556 // FAX: 662-2511) // IN ATTENDANCE: JDW, MARISELA // EXTERNAL ATTENDEES: MS. KATHRYN FULLER, PRESIDENT, WWF-USA, MR. JONATHAN LASH, PRESIDENT, WORLD RESOURCES INSTITUTE, MR. BRUCE CABARLE, SENIOR ASSOCIATE, SUSTAINABLE FORESTRY, WORLD RESOURCES INSTITUTE // (B) BY NEWCOMBE // DUE 5:30 P.M. WEDNESDAY, DEC. 31 // EXC: MM // LFG (12/23) Brief includes: --- Briefing Note to JDW from K. Newcombe, Dec. 31 --- Letter to JDW from Jonathan Lash, President, World Resource Inst. Dec. 23 --- Letter to JDW from Kathryn S. Fuller, President WWF, Dec 12	**DATE:** 01/05/98

C. VPU

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D. EXTERNAL PARTNER

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E. COMMENTS:

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THE WORLD BANK/IFC/M.I.G.A.

OFFICE MEMORANDUM

DATE: December 31, 1997

TO: Mr. James D. Wolfensohn, EXC

FROM: Ken Newcombe, ENV

EXTENSION: 36010

SUBJECT: **Briefing Notes on Meeting with Jonathan Lash (WRI) and Katherine Fuller (WWF) Monday, January 5, 1998**

There are three reasons why these NGO leaders have requested a meeting with you before the CEO's meeting, January 9th.

I. Ongoing Partnerships with the Bank in Forestry

The global strategic alliance with WWF and the Forest Market Transformation Initiative with WRI, as well as the understandings between the Bank in each case, have a bearing on their approach to and expectations of the CEOs meeting.

- They both feel the CEOs meeting is potentially a watershed event in forestry globally.
- Both WRI and WWF have invested heavily in establishing and trying to encourage the private sector to participate independently certified improved forest management.
- They feel that the industry representatives you have brought to the table can, with the Bank, IUCN and themselves, collectively shift the momentum towards independently certified low-impact or "sustainable forestry". They want to share with you how they feel this can be done.
- They may wish to emphasize not only that the Bank's support for sustainable forestry is crucial to slowing forest loss and degradation, but that this support is the reason they have been prepared to engage in potentially controversial partnerships with the Bank. Controversial with:
  - ◊ ***NGOs*** - who criticize them for potentially "compromising" opposition to an allegedly environmentally negligent World Bank: and
  - ◊ ***Industry*** - concern about the impact our apparent endorsement of NGO standards on sustainable forestry could have on "publicly acceptable" standards of forestry practice globally.

II. Sustainable Forestry

They are concerned that some differences in opinion in industry and NGOs about the value and definition of "sustainable forestry" may undermine the considerable progress that has been made in the last four years—especially in the last year, in getting private sector buy-in to low impact forestry that leaves most biodiversity and cultural values of forests intact. They want to brief you on these differences of opinion and how to cope with them, should they arise.

III. WWF

Kathryn Fuller cannot attend the CEOs meeting herself because the global figurehead for WWF is Claude Martin. Kathryn, in fact, plays just as important a role in WWF's leadership in forestry, and perhaps deals more with the CEOs attending the meeting than Claude. She wants to share with you what the meeting means for the high profile Bank-WWF Alliance, which by the way is going very well so far.

Jonathan Lash's letter expresses his personal and WRI's views on the above and contains thoughtful comments on what we might seek as outcomes of the CEOs meeting.

12/23/97 Letter from
Jonathan Lash

WORLD RESOURCES INSTITUTE

1709 New York Avenue, N.W., Washington, D.C. 20006, Telephone: 202-638-6300
Facsimile: 202-638-0036 WWW: http://www.wri.org/wri/ gopher: //gopher.wri.org:7018/

December 23, 1997

Mr. James Wolfensohn
President
The World Bank Group
1818 H. Street, NW
Washington DC 20433
FAX: 202-522-3031

Dear Jim,

I write to thank you for including me in the forthcoming meeting on January 9, 1998 with CEOs from the forest products industry and environmental NGOs, and to share my ideas to ensure that the meeting is both productive and viewed positively by the audience.

I hope that you will utilize this forum to articulate your vision for the future of the world's last frontier forests, and the leadership role the Bank will play to achieve it. The aggressive targets you announced at UNGASS -- to significantly expand the area of forests under protected area status and independently certified management regimes by the year 2005 -- set an important baseline for this vision. I wish to highlight four additional points for your consideration in setting the meeting's tone and agenda:

* Logging is the primary threat to the world's last remaining frontier forests. For the time being, it will remain the principal economic activity in many of these areas. While it is essential to recognize this fact, immediate steps must be taken to mitigate the profound environmental and social disruptions of these operations. Low-impact logging, voluntary conservation set asides and independent certification have proven to be useful tools for mitigating many of these impacts.

* Only 20 percent of the world's orignial frontier forests remain. They provide critical benefits on a global scale. It is imperative to catalyze a rapid transition away from their destructive use. This means a shift away from mining old-growth forests, and the reorientation of commodity production towards more sustainable sources of fiber (e.g. secondary forests, tree farms or agricultural wastes). Markets must reward public, communal and private forest owners who provide ecosystem services such as carbon sequestration, potable water supplies, biodiversity conservation and ecotourism.

* Compensation mechanisms must be developed for transferring resources to the few remaining countries that harbor the last great reserves of frontier forests in exchange for providing ecosystem services to the global community.

* The Bank is already well equipped within the scope of its current policy frameworks and through its unique partnership with client governments to exert significant leadership in catalyzing this transition.

Reducing the impact

Low-impact logging technologies are proving to be both profitable and more environmentally sound in an increasing number of sites around the world. Voluntary set-asides have proven to be a cost-effective way to achieve conservation benefits within the working landscape. Independent certification by third-parties has become an effective system to demonstrate commitment to high standards of performance. We need to accelerate the use of these mechanisms in those frontier forests currently being logged.

Of special note is independent certification by third-parties of existing operations. This is proving to be the only credible way to demonstrate compliance with mandatory or voluntary standards designed to reduce the profound environmental and social impacts of logging. Company or trade association-based reporting mechanisms do not generate public confidence. And they certainly won't work for an industry subjected to increased public scrutiny and whose products flow freely across national borders. For example, almost 3 million hectares of forest have been independently certified under the auspices of the Forest Stewardship Council and is gaining increasing market recognition, particularly in western Europe. Market impacts aside, progressive business leaders understand that investments in "reputational" capital -- through open, transparent and good-faith dialogue with stakeholders -- can yield impressive returns. Independent certification has proven to be a very effective tool for earning this social license.

An industry in transition

Our recent analysis, *The Last Frontier Forests: Ecosystems & Economies on the Edge*, shows that four-fifths of the world's original frontier forests have been severely modified or eliminated, and that logging is the principal threat to the remaining fifth. The irreplaceable ecosystem services provide by forests were valued at US$ 4.7 trillion/yr in a recent study published in *Nature*, far exceeding the value of the standing timber alone. If frontier forests are to be managed for their highest and best use in a truly global perspective, commodity production must shift away from mining old-growth forests to more appropriate sites. We must correct market signals and install incentives that reward industry leaders, and not laggards, who set the pace for this transition.

Aggressively pursuing more efficient and alternative ways to produce wood commodities currently supplied by frontier forests will help to accelerate this transition. First, demand-side interventions to eliminate waste throughout the life cycle of wood products is a key part of the solution. For example, the National Association of Home Builders estimates that a 20 percent reduction in wood use could be achieved without any loss in structural integrity simply through more efficient framing. A sixth of the wood materials delivered to a typical construction site wind up in the trash bin. The Bank can play a pivotal role by promoting design technology that results in less waste and higher profits. Second, we need to ensure that market signals support the highest and best use of the resource base. For example, the 15 percent of the US paper consumption currently supplied by pulping centuries-old trees in the slow growing boreal forests of Canada and Russia could be alternatively produced from secondary forests, tree farms, or even substitute fibers such as agricultural waste currently burned as stubble. The Bank could help client countries create special "commercial restoration zones" where ecological and economic reconstruction are joint objectives, backed by fiscal incentives and technical assistance. This would redirect commodity production away from frontier forests to areas where transportation, infrastructure, underemployed labor and markets already exist.

The Role of the World Bank Group

Under your leadership and existing policy frameworks, the World Bank is poised to exert significant influence over the future of frontier forests. The Bank can encourage policy reform, strengthen the transparency and accountability of regulatory agencies, and help develop markets for non-timber goods and services as part of its lending and advice to client governments. The Bank can support demarcation and land titling that recognizes usufruct rights and traditional territories of forest-dependent people, as well as in technology transfer and training. All of these will help shift incentives toward more environmentally and socially responsible practices.

The Bank can also leverage private capital for innovate ventures such as biodiversity prospecting, ecotourism, and watershed services; all potential forest assets currently eclipsed by the exclusive focus on timber production. Discussions of a "Clean Development Mechanism" at the Kyoto Conference may provide an important mechanism for placing a value on standing forests, and potentially become an major source of financing for underwriting this transition.

Final Considerations

Given the highly polarized debate about forests, transparency and accountability in the Bank's forest-related activities are more critical than ever. I hope that you will commit your staff to reporting out the results of our discussions to the broader community of stakeholders. Any ongoing process stimulated by this meeting should be conducted in the most transparent manner possible, and include a broader representation of stakeholders than was included in this particular meeting.

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Mr. Wolfensohn
December 23, 1997
page 4

Finally, let me congratulate you for utilizing the Bank's convening power to initiate a dialogue among this set of actors. Clearly, the private sector is driving much of what is taking place in frontier forests. A first step toward improving the current on-the-ground reality of forest management is to understand what they perceive to be the most significant barriers to change, and jointly identifying strategies to overcome them.

I hope that these comments prove useful to you in preparing for the meeting. Please feel free to call upon me or my staff if we can be of any further assistance.

Sincerely,

for Jonathan Lash
President

cc: Mr. Ken Newcombe, fax 202-477-0565
Enclosure [*questionnaire*]

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Questionnaire for January 9, 1998 Meeting w/ WB President Wolfensohn & forest product industry and environmental leaders.

1. WHAT ARE THE KEY GLOBAL FORESTRY ISSUES OR TRENDS THAT HAVE AN/WILL IMPACT INVESTMENTS IN RESPONSIBLE FOREST MANAGEMENT AND/OR EXPANDED CONSERVATION?

* Unprecedented loss and degradation of the world's forests, creating the most alarming species extinction rate since the last Ice Age (except this time it is induced by humans).

* Outside of boreal regions, 75 percent of remaining frontier forest is threatened. Commercial logging poses the greatest danger to 72 percent of the threatened frontier forests, and is cited by national experts as the leading driver in all major frontier forest regions. (WRI, 1997, The Last Frontier Forests: Ecosystems & Economies on the Edge)

* Increased documentation and recognition of the profound social and ecological costs associated with current logging practices in many of these areas.

* Rapid increase in trans boundary flows of private capital, without a commensurate increase in mechanisms to influence or even track the environmental consequences of those flows, thereby separating investors from the places being impacted by their investments by both geography and lack of information. These flows vastly overshadow government's ability to monitor and enforce compliance or to negotiate fair deals.

* Shift in production base from many traditional fiber producing regions -- particularly in SE Asia, western Africa, and the Pacific Northwest of the USA -- to new areas based upon plantation-based fiber production or increased expansion into previously unopened forest frontier regions. Many of these regions have poorly developed legal, administrative and enforcement capabilities incompatible with the challenge.

* Technological advances in engineered structural products and composite panels are increasing the species mix and lowering the dimensional requirements of the raw resource (trees) necessary to produce these many products (such as pulp) traditionally sourced from old-growth forests.

* Advent of new market mechanisms to value forest ecosystem services, such as carbon sequestration and biodiversity prospecting, as well as to product differentiation through certification and labeling.

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2. WHAT ARE THE MAJOR OBSTACLES TO YOUR ORGANIZATION (OR OTHERS) TO BECOMING MORE INVOLVED IN DEVELOPING COUNTRIES WITH SIGNIFICANT FOREST RESOURCES?

* Perverse incentives and subsidies in agricultural, transportation and other sectors that result in large-scale indiscriminate clearing or degradation of forests.

* Persistent failure of governments to internalize non-timber benefits associated with well-managed forests into macroeconomic analysis and sector-specific decision-making.

* Resource allocation and decision making based upon political patronage, underwritten by wide-scale corruption, and lack of public accountability, making both it difficult and dangerous to "do the right thing."

* Limited political "space" for independent assessment and open dialogue regarding the full costs and benefits of alternative forest management regimes, particularly regarding the allocation of those costs and benefits (e.g., the deliberate stifling of a national dialogue over the root causes of forest loss and degradation, particular during man-made catastrophic events that produce cross boundary effects).

3. HOW CAN THE WORLD BANK GROUP BEST PROMOTE IMPROVED FOREST MANAGEMENT & CONSERVATION?

* Systematic incorporation of the economic benefits of sound forest management (and the economic costs of forest degradation and loss) into every relevant country assistance strategy, economic and sector analysis, and dialogue with client governments. This needs to be above and beyond conventional attention paid to the forestry sector per se, to draw the attention of finance ministries and economic development planners to the full economic accounting of current forest management policies and practices

* Use adjustment lending at the macroeconomic and sector level to institute necessary reforms in relevant sectors to correct policy failures that lead to misuse and degradation of the resource base (e.g. as in Papua New Guinea, Cameroon and Russia), including improved rent capture, fair-market valuation of public goods, and other measures necessary to eliminate free-riders solely driven by asset stripping behavior

* Expand the application of the "environmental adjustment lending" concept with countries that commit to conserving their frontier forests, as is being discussed currently with the Government of Kenya. This could be used to improve incentives and market recognition for responsible stewards operating within their borders.

* Exercise the Bank's convening power to legitimize the participation of the non-profit private sector in dialogues regarding alternative forest management strategies at national and subnational levels during the country-dialogue process, on both pre- and post-project reviews.

* Expand the Bank's project lending facility to finance demarcation of indigenous peoples land claims, development of dispute resolution mechanisms, and forest monitoring systems.

* Expand IFC efforts in developing markets for, and financing enterprises based on, non-timber forest products and ecosystem services to leverage greater private sector capital flows into these areas (such as the current IFC biodiversity-oriented sector investment fund).

* Apply the Bank's new anti-corruption initiative to the forestry sector, particularly with respect to the transparency of concession allocation and compliance with contractual and regulatory minimums.

4. WHAT ADDITIONAL ROLE OR ACTIVITY IS YOUR ORGANIZATION WILLING TO PLAY IN PROMOTING SUCH PRACTICES?

* WRI is already engaged in the key frontier forest regions of the Congo Basin (Cameroon & Gabon), the Guyana Shield (Guyana, Suriname, Venezuela), Indonesia and Canada. WRI is open to working with the Bank, governments, citizen's groups and the private sector through our Forest Frontiers Initiative in the following areas to:

(i) produce independent review and analysis of sectoral policies
(ii) build an independent, decentralized network of partner institutions capable of monitoring development activities and "success stories" in key frontier regions, to made public via the Internet (Global Forest Watch).
(iii) advise in scenario-analyses and management consulting services regarding the development and implementation of corporate strategies with responsible companies committed to establishing new benchmarks in socially responsibility, environmentally friendliness and public reporting to demonstrate profitable alternatives to the status quo. (Sustainable Forest Enterprise).
(iv) support US-based retailers and institutional consumers to ensure tomorrow's forests through responsible purchasing today through the Certified Forest Products Council.

James Wolfensohn
December 23, 1997
WRI Response
page 4

5. DO YOU BELIEVE THERE IS A LONG-TERM STRATEGIC ROLE FOR THIS GROUP? (POTENTIAL ROLE, OBJECTIVES, ADDITIONAL PARTICIPANTS, STRUCTURE AND ACTIVITIES?)

*Depends upon the results of the meeting, and the objectives set for continued work on this issue by the group. However, the current list of invitees consists of inadequate stakeholder representation to credibility discuss most issues raised about forests to date in international fora.

* Any mechanisms resulting from this meeting should (i) be based upon transparency and accountability to the broader international community concerned with frontier forests, (ii) include the necessary stakeholders to achieve credibility, and (iii) be subject to periodic review by others than those invited to this meeting to ensure objectivity.

* Further engagement of the private sector by the Bank on this issue would be most welcomed, but must be accountable to the public and avoid the resemblance of green washing or endorsement by association at all costs.

12/12/97 Letter from
Kathyrn Fuller

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WWF

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OFFICE OF THE PRESIDENT

Kathryn S. Fuller
President

December 12, 1997

Mr. James D. Wolfensohn
President
World Bank
1818 H Street, NW
Washington, DC 20433

Dear Jim:

Thank you for your recent note. I want to take you up on the willingness you expressed to meet on our forest alliance project. From my vantage point, it would be useful if we could get together at least briefly in advance of the January 9th meeting you are convening. I am away between Christmas and New Year's but otherwise here.

Among other things, I would like to talk with you about the issues that ecolabelling of timber and other commodities pose for the trade community. I am on the U.S. Advisory Committee for Trade Policy and Negotiation and in that role have had a chance both to raise the subject with Charlene Barshefsky and to tell her about The World Bank/WWF alliance. She sounded quite interested and enthusiastic. I have since sent her a copy of last June's press release announcing the alliance.

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Then, I thought you might enjoy a copy of the new World Wildlife Fund Annual Report. This is a time of enormous ambition for WWF, as you can see.

I am enormously grateful for the enthusiastic support you are bringing to the urgent nature conservation cause on which we at WWF work daily. It is heartening to me and to us all.

Sincerely,

Kathryn

Kathryn S. Fuller

Enclosure: Annual Report