

Food demand eating into tropical forests

REUTERS, Bonn, Germany

Slowing deforestation and greater awareness of the value of standing trees may come too late to save the world's biggest rainforests, according to a global assessment of tropical forests published Tuesday.

Tropical forests are threatened by pressures to clear land to produce food and biofuels and to plant fast-growing trees for timber, wood fuel and paper.

Awareness was growing in tropical countries of consumer demands, especially in western countries, for wood harvested sustainably, but perhaps not fast enough to counter growing world demand for food, said Duncan Poore, co-author of the report and former head of the World Conservation Union (IUCN).

"There's been an extraordinary change of attitude and culture. They may not be practicing it, or able to because of a lack of funds, but they know it's there," said Poore.

But he was not optimistic for the fate of the biggest areas of rainforest in Brazil, Indonesia and central Africa.

"The fundamental point is that conserving forests is not as lucrative as converting to other uses. When you consider the increase in consumption in China, India it's a very alarming prospect," he said, referring to demand to convert forests to farms for food and biofuels.

The global area of permanent, natural tropical forests, either protected or harvested for indigenous tree species, was likely to continue to fall in the medium term, said the report, "Status of tropical forest management 2011."

CONCERN

The report was published by the international agency for monitoring and promoting sustainable management, the Japan-based International Tropical Timber Organization.

It expressed concerns about weak law enforcement, inadequate funds for forest protection, poor data on forest management and uncertain forest



REUTERS

A view of deforestation on Indonesia's Sumatra island.

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The total area of permanent, natural tropical forest in 2010 was 761 million hectares, of which 403 million hectares was managed, for example to harvest indigenous tree species for timber, and 358 million hectares protected.

The area managed using sustainable practices had increased slightly, it said, to about 53 million hectares from

36 million hectares in 2005.

A sharp fall in the protected area over that period in particular in Brazil and India was likely mostly because of accounting changes, it said.

Deforestation rates generally from 2005-2010 were below 1 percent, it found, but much higher in particular countries and especially in Togo and Nigeria.

That supported a report by the U.N.'s food agency, which found the rate of destruction of the world's three largest forests fell 25 percent this decade compared with the previous one, but remained alarmingly high in some countries.

In the long-run, a proposed system of payments to tropical countries for reducing emissions from deforestation

and forest degradation (REDD) may place a higher value on standing trees compared with chopping them down, Tuesday's report said.

But that proposal has become bogged down in U.N. climate talks locked in wrangling over sharing greenhouse gas emissions cuts between industrialized and emerging economies.

You're on your own, kids

JAMES SAFT

First came the realisation that US economic growth was fading. Now comes the dawning feeling that no meaningful help is on the way.

There is no sign of significant new stimulative government spending and little chance that the Federal Reserve will be willing, much less able, to follow up with another round of quantitative easing.

As for the global economy, Europe is in its own crisis and that transition to a consumer economy in China is going to take a while.

For investors used to more than a decade of bailouts, this will be a rude shock and will follow the usual pattern of denial through to acceptance.

Government bonds will get yet another boost, as will the US dollar, while equities and other expressions of risk appetite will get pummeled.

Friday's jobs report brought home just how feeble the US economy is with non-farm payrolls rising by just 54,000 in May, about 100,000 less than is needed to merely keep employment stable. Private sector hiring was disappointing, but so too was government employment, which has been on a long, slow descent.

The data merely confirmed what was already apparent: economic growth began to slow in the first quarter and has slowed further as the year has gone on.

While lots of attention is paid to the things that have changed and are hurting the economy energy prices and freak weather the fundamentals driving the economy are really unchanged. Households have too much debt, supported by too little earnings and secured against, in many cases, assets with diminishing value like real estate.

The Pavlovian response among investors has been to figure that a weak economy and weakening markets will bring further government stimulus; after all for many that's all they have ever known.

This time is going to be different, for good or ill.

"We have shifted in the economy from a rescue phase, which is government-directed, to a phase in which we've got to rely on government policies that are trying to leverage the private sector and give incentives to the private sector to be doing the growth," Austan Goolsbee, the head of White House Council of Economic Advisors said on ABC television.

While Goolsbee may believe this, it wouldn't matter if he didn't because the Administration has little choice but to hope the private sector can

do something; the public sector will not. While there are proposals for stimulative measures like an infrastructure bank they are either blocked in Congress by Republican opposition, are too small to make a difference, or both.

POLICY STALEMATE

This is the great unaccounted-for cost of the TARP and other rescue plans dating from 2008. They poisoned public opinion against all government stimulus, tying the hands of the current Administration and very likely of future ones.

The debate has moved firmly towards budget cuts, and while those are an ultimate necessity, the market has not quite caught up with their economic implications. It is not just bureaucrats who will be thrown out of jobs, private sector employment and profits will take big hits too.

As for the Federal Reserve, things would have to get a lot worse, as well they may, before they can

be expected to weigh in with another round of QE. While "QE2" fulfilled its aim in driving equity prices up and the dollar down, there is genuine controversy over what the risk/reward trade off actually is.

Federal Reserve vice chair Janet Yellen last week acknowledged that, taken too far, the sort of "reaching for yield" the Fed has engineered can lead to dangerous financial imbalances.

Almost more to the point, even if the Fed wanted to go further with extraordinary measures it faces real political risks and costs if it does. QE2 has been very unpopular in certain quarters. This is partly because of fears of inflation, but also because many Republicans view it as fiscal policy by another name, and its use as a unilateral infringement of Congress' powers.

Wrong this may be, but it will be increasingly

difficult for the Fed to act again as the 2012 election cycle kicks off, raising the bar for further action.

So, how does this play out in financial markets? It is very positive for government bonds, even in the face of the debt ceiling negotiations. The economy is doing poorly and will get little further support. The dollar should do well too, as investors come to realize that there will be no additional (virtual) money printing.

For equities and other risk assets it will be, of course, bad. It will take a while for the new reality to sink in, but when it does look for conditions that are just bad enough to bring consensus on rescues, stimulus and extraordinary measures yet unimagined.

Saft is a Reuters columnist. The opinions expressed are his own



Stephen Greene works a street corner hoping to land a job as a labourer or carpenter on June 3 in Pompano Beach, Florida.

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