

TO REAUTHORIZE THE TROPICAL FOREST CONSERVA-
TION ACT OF 1998 THROUGH FISCAL YEAR 2007, AND
FOR OTHER PURPOSES

—————
JULY 14, 2004.—Committed to the Committee of the Whole House on the State of
the Union and ordered to be printed
—————

Mr. HYDE, from the Committee on International Relations,
submitted the following

R E P O R T

[To accompany H.R. 4654]

[Including cost estimate of the Congressional Budget Office]

The Committee on International Relations, to whom was referred the bill (H.R. 4654) to reauthorize the Tropical Forest Conservation Act of 1998 through fiscal year 2007, and for other purposes, having considered the same, reports favorably thereon without amendment and recommends that the bill do pass.

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PURPOSE AND SUMMARY

This bill reauthorizes the Tropical Forest Conservation Act of 1998 (TFCA) through fiscal year 2007. The current TFCA authorization, P.L. 107-26, expires at the end of fiscal year 2004. H.R.

4654 authorizes appropriations for debt reduction for eligible countries through FY 2007 at \$20,000,000 in FY 2005 (the President's budget request); \$25,000,000 in FY 2006; and \$30,000,000 in FY 2007. A new section authorizes that funds can be used for audits and evaluations of the program. In addition, an amendment allows for TFCA debt reduction agreements to redirect reduced *principal* payments for forest conservation activities. Current law allows only the redirection of reduced *interest* payments into forest conservation funds.

Ensuring fiscal and programmatic accountability requires the ability to contract for independent audits. While it is the intent of H.R. 4654 to maximize the amount of funds going to new TFCA deals, a modest authorization level is provided as a good management procedure to ensure that some audits be undertaken each year. The \$200,000 authorized by the bill to be made available to carry out audits and evaluations of programs is not intended as a limit on expenditures for such purposes.

H.R. 4654 would allow principal on debt incurred before January 1, 1998, to be eligible for treatment under the straight debt reduction option; currently only interest can be treated. The benefit of also treating principal is that the U.S. Government can treat more debt and therefore generate more funds for forest conservation. At present, principal is only treated under subsidized debt-for-nature swaps, involving private money contributed by NGOs.

BACKGROUND AND NEED FOR THE LEGISLATION

The Tropical Forest Conservation Act (TFCA) was first enacted in 1998 and reauthorized in 2001. TFCA is based on Enterprise for the Americas Initiative (EAI) started in 1991 that allows the President to restructure debt in exchange for conservation efforts in Latin America. The TFCA expands on the EAI and allows protection of threatened tropical forests *worldwide* through "debt-for-nature" mechanisms.

H.R. 4654 was developed with the Bush Administration, the World Wildlife Fund, the Nature Conservancy, Conservation International, and the Wildlife Conservation Society.

The United States has a significant national interest in protecting tropical forests in developing countries. Tropical forests provide a wide range of benefits. They harbor 50–90 percent of the earth's terrestrial biodiversity. They act as "carbon sinks," absorbing massive quantities of carbon dioxide from the atmosphere, *thereby reducing greenhouse gases*. They regulate rainfall on which agriculture and coastal resources depend, and they are of great importance to regional and global climates. Furthermore, tropical forests are breeding grounds for new medicines. Twenty-five percent of prescription drugs come from tropical forests. The United States National Cancer Institute has identified over 3,000 plants that are active against cancer. Seventy percent of them can be found in tropical forests.

Regrettably, tropical forests are rapidly disappearing. It is estimated that 30 million acres (an area larger than the State of Pennsylvania) are lost each year. The heavy debt burden of many countries is a contributing factor because they must resort to exploitation of their natural resources (particularly the extraction of timber, oil, and precious metals) to generate revenue to service their

external debt. At the same time, poor governments tend to have few resources available to set aside and protect tropical forests. The TFCA addresses these economic pressures by authorizing the President to allow eligible countries to engage in debt swaps, buybacks or reduction/restructuring in exchange for protecting threatened tropical forests on a sustained basis.

The debt-for-nature mechanisms in the TFCA have proven to be an effective, market-oriented tool to leverage scarce funds available for international conservation. The host country places an amount in its tropical forest fund that typically exceeds the cost to the U.S. Government of the debt reduction agreement. In addition, because these tropical forest funds have integrity and are broadly supported within the host country, conservation organizations are interested in placing their own money in these tropical forest funds further leveraging Federal conservation dollars.

Current TFCA agreements will contribute to the conservation of 40 million acres of tropical forests.

In addition to forest conservation and debt relief, TFCA is intended to strengthen civil society by creating local foundations to support small grants to nongovernmental organizations (NGOs) and local communities. The program also offers a unique opportunity for public-private partnerships. Four of the agreements to date have included private funds raised by U.S.-based NGOs in addition to appropriated debt reduction funds.

TFCA AGREEMENTS TO DATE

Seven TFCA agreements have been concluded to date: Bangladesh, El Salvador, Belize, Peru, the Philippines, Panama and Colombia. These agreements have generated \$70.4 million in long-term income commitments for tropical forest conservation. Private donors have contributed more than \$5 million to TFCA swaps, leveraging the U.S. Government funds.

Bangladesh

The U.S. contributed \$6 million to reduce debt in Bangladesh. The TFCA agreement with Bangladesh will generate \$8.5 million in conservation funds to support grants for forest conservation activities in Bangladesh over 18 years. The Bangladesh agreement will focus on conservation of critical habitat for the Bengal tiger, including the Sundarbans East Wildlife Sanctuary, the Himchari National Park, and the Tknaf Game Reserve.

El Salvador

The U.S. contributed \$7.7 million to reduce debt in El Salvador. The TFCA agreement with El Salvador will generate \$14 million in conservation funds over 25 years for forest restoration on denuded mountain slopes to prevent catastrophic mud slides and to restore biological diversity to 282,000 acres.

Belize

The U.S. contributed \$5.5 million and the Nature Conservancy \$1.3 million in a debt swap agreement that will generate \$9 million in conservation funds. The agreement will conserve 23,000 acres of new forest preserves and provide support for local non-governmental organizations managing 270,000 acres of national tropical

forest areas over 26 years. The government of Belize donated 11,000 acres of land as part of the agreement. A principal area to be protected is the 800,000 acre Maya Mountain Marine Corridor which contains pristine tropical rain forests, mangrove forests and coral reefs offshore.

Peru

The World Wildlife Fund, the Nature Conservancy and Conservation International together contributed \$1.1 million to the Peru debt swap agreement. The U.S. contribution was \$5.5 million. The agreement will generate \$10.6 million in conservation funds over 12 years and will help conserve at least 10 protected areas including the Pacaya-Samiria National Reserve. This is a five million-acre area, nearly the size of the state of New Jersey, that contains humid tropical forests and wetlands, is home to freshwater gray and pink dolphins, Amazonian manatees, and giant river otters.

Panama

The Nature Conservancy contributed about \$1.2 million to the June 2003 TFCA agreement with Panama, and the U.S. contributed \$5.6 million, which will generate \$10 million in conservation funds over 13 years to help preserve the Chagres River Basin, a high biodiversity tropical forest that is also the major source of water for the Panama Canal, and is home to jaguars, Harpy eagles, and Howler monkeys.

Philippines

The U.S. contributed \$5.5 million to reduce debt in the Philippines. The TFCA agreement with the Philippines will generate \$8.3 million in conservation funds over 14 years to conserve high-value coastal forests and mangroves in a country that has the highest rate of deforestation in southeast Asia, and the third highest in Asia.

Colombia

The U.S. contributed \$7 million to Colombia and \$1.4 million was contributed by the World Wildlife Fund, the Nature Conservancy and Conservation International which will generate approximately \$10 million in local currency debt payments over 12 years to support grants that will conserve the northeastern tropical Andes, including oak forests, the Llanos region in Orinoco Basin, and the Caribbean region. These are areas of great biodiversity that are home to 120 species of mammals, 46 species of amphibians and reptiles, and 638 species of birds. The agreement will also create a permanent endowment fund to manage these areas over time.

OUTLOOK

At least three TFCA agreements in up to three new countries are expected annually through FY 2007. Active deals are currently being negotiated with Jamaica and Sri Lanka. Several other countries that have expressed interest in the program or that have eligible debt include: Guatemala, Ecuador, Paraguay, St. Vincent, Botswana, Costa Rica, the Dominican Republic, India, Indonesia, Brazil, and Kenya.

COMMITTEE CONSIDERATION

On June 24, 2004, the Committee met in open session and ordered favorably reported the bill H.R. 4654 by voice vote, a quorum being present.

VOTES OF THE COMMITTEE

There were no record votes on H.R. 4654.

COMMITTEE OVERSIGHT FINDINGS

In compliance with clause 3(c)(1) of rule XIII of the Rules of the House of Representatives, the Committee reports that the findings and recommendations of the Committee, based on oversight activities under clause 2(b)(1) of rule X of the Rules of the House of Representatives, are incorporated in the descriptive portions of this report.

NEW BUDGET AUTHORITY AND TAX EXPENDITURES

Clause 3(c)(2) of House Rule XIII is inapplicable because this legislation does not provide new budgetary authority or increased tax expenditures.

CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

In compliance with clause 3(c)(3) of rule XIII of the Rules of the House of Representatives, the Committee sets forth, with respect to the bill, H.R. 4654, the following estimate and comparison prepared by the Director of the Congressional Budget Office under section 402 of the Congressional Budget Act of 1974:

U.S. CONGRESS,
CONGRESSIONAL BUDGET OFFICE,
Washington, DC, June 28, 2004.

Hon. HENRY J. HYDE, *Chairman,*
Committee on International Relations,
House of Representatives, Washington, DC.

DEAR MR. CHAIRMAN: The Congressional Budget Office has prepared the enclosed cost estimate for H.R. 4654, a bill to reauthorize the Tropical Forest Conservation Act of 1998 through fiscal year 2007, and for other purposes.

If you wish further details on this estimate, we will be pleased to provide them. The CBO staff contact is Joseph C. Whitehill, who can be reached at 226-2840.

Sincerely,

DOUGLAS HOLTZ-EAKIN.

Enclosure

cc: Honorable Tom Lantos
Ranking Member

H.R. 4654—A bill to reauthorize the Tropical Forest Conservation Act of 1998 through fiscal year 2007, and for other purposes.

SUMMARY

H.R. 4654 would authorize the appropriation of \$75 million over the 2005–2007 period for programs under the Tropical Forest Conservation Act. Those funds would be used to cover the costs of restructuring debt owed to the United States so that certain countries would pay into local funds established to preserve, maintain, and restore tropical forests. CBO estimates that implementing the bill would cost \$75 million over the next five years, assuming the appropriation of the authorized amounts. H.R. 4654 would not affect direct spending or receipts.

H.R. 4654 contains no intergovernmental or private-sector mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would not affect the budgets of state, local, or tribal governments.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated budgetary impact of H.R. 4654 is shown in the following table. The estimate assumes that the bill will be enacted late in 2004, that the authorized amounts will be provided in annual appropriation acts, and that outlays will follow historical spending patterns. The costs of this legislation fall within budget function 150 (international affairs).

By Fiscal Year, in Millions of Dollars

	2004	2005	2006	2007	2008	2009
SPENDING SUBJECT TO APPROPRIATION						
Spending Under Current Law for Debt Restructuring						
Budget Authority ¹	94	0	0	0	0	0
Estimated Outlays	234	180	63	0	0	0
Proposed Changes						
Authorization Level	0	20	25	30	0	0
Estimated Outlays	0	8	22	27	18	0
Spending Under H.R. 4654 for Debt Restructuring						
Authorization Level ¹	94	20	25	30	0	0
Estimated Outlays	234	188	85	27	18	0

¹The 2004 level is the amount appropriated for that year.

BASIS OF ESTIMATE

The Tropical Forest Conservation Act of 1998 authorized the Secretary of State to negotiate agreements with eligible countries to create local funds administered by local boards with the authority to make grants to preserve, maintain, and restore tropical forests. The local funds receive a stream of payments generated from modifying the terms of outstanding development assistance or food-aid debt owed to the United States. The debt modifications include authority to reduce and to restructure debt, to swap the debt, or to sell the debt back to an eligible country in ways that will generate income for the local funds. H.R. 4654 would authorize the appropriation of \$20 million in 2005, \$25 million in 2006, and \$30 million in 2007 to cover the cost of loan modifications, as defined by the Federal Credit Reform Act.

Under current law, only interest from the modified loans may be deposited in the local funds. Principal payments continue to be paid in dollars to the U.S. government. H.R. 4654 would authorize the payment of principal from the modified loans to the local funds. In addition, the bill would authorize \$200,000 to be used for audits and program evaluations in any year. CBO estimates those changes to the program would reduce the amount of outstanding debt that could be modified with the amounts authorized, but would not otherwise affect the cost of the program.

INTERGOVERNMENTAL AND PRIVATE-SECTOR IMPACT

H.R. 4654 contains no intergovernmental or private-sector mandates as defined in UMRA and would not affect the budgets of state, local, or tribal governments.

ESTIMATE PREPARED BY:

Federal Costs: Joseph C. Whitehill (226-2840)
 Impact on State, Local, and Tribal Governments: Melissa Merrell
 (225-3220)
 Impact on the Private Sector: Paige Piper/Bach (226-2940)

ESTIMATE APPROVED BY:

Peter H. Fontaine
 Deputy Assistant Director for Budget Analysis

PERFORMANCE GOALS AND OBJECTIVES

The goal of this legislation is to reauthorize the TFCA (P.L. 105-214), protecting the world's valuable tropical forests by restructuring debt in exchange for conservation efforts.

CONSTITUTIONAL AUTHORITY STATEMENT

Pursuant to clause 3(d)(1) of rule XIII of the Rules of the House of Representatives, the Committee finds the authority for this legislation in article I, section 8, clause 18 of the Constitution.

SECTION-BY-SECTION ANALYSIS AND DISCUSSION

Section 1. Reduction of Debt Under the Foreign Assistance Act of 1961 and Title 1 of the Agricultural Trade Development and Assistance Act of 1954.

This section authorizes appropriations for reduction of debt programs at \$20,000,000 for fiscal year 2005; \$25,000,000 for fiscal year 2006 and; \$30,000,000 for fiscal year 2007.

Section 2. Use of Funds to Conduct Program Audits and Evaluations.

This section amends TFCA to add a new section 806(e) to authorize the use of a portion of each year's appropriation for the costs associated with conducting prudent and efficient audits and evaluations, including personnel costs associated with such audits and evaluations of the TFCA.

Section 3. Authority to Allow for Payments of Principal and Interest in Local Currencies.

This section allows for TFCA debt reduction agreements to redirect reduced *principal* payments (in local currency) for forest conservation activities. Current law allows only the redirection (in local currency) of reduced *interest* payments into forest conservation funds. There are several countries that are potentially eligible for TFCA deals *but have insufficient eligible interest owed to the United States that could be reduced to create viable tropical forest funds*. The TFCA already allows for principal to be reduced and redirected toward forest conservation under TFCA debt swap agreements entered into pursuant to Sec. 808. This section will extend that possibility to debt reduction agreements.

OUTLOOK

At least three TFCA agreements in up to three new countries are expected annually through FY 2007. Active deals are currently being negotiated with Jamaica and Sri Lanka. Several other countries that have expressed interest in the program or that have eligible debt include: Guatemala, Ecuador, Paraguay, St. Vincent, Botswana, Costa Rica, the Dominican Republic, India, Indonesia, Brazil, and Kenya.

NEW ADVISORY COMMITTEES

H.R. 4654 does not establish or authorize any new advisory committees.

CONGRESSIONAL ACCOUNTABILITY ACT

H.R. 4654 does not apply to the legislative branch.

FEDERAL MANDATES

H.R. 4654 provides no Federal mandates.

CHANGES IN EXISTING LAW MADE BY THE BILL, AS REPORTED

In compliance with clause 3(e) of rule XIII of the Rules of the House of Representatives, changes in existing law made by the bill, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italics, existing law in which no change is proposed is shown in roman):

TROPICAL FOREST CONSERVATION ACT OF 1998

* * * * *

SEC. 806. REDUCTION OF DEBT OWED TO THE UNITED STATES AS A RESULT OF CONCESSIONAL LOANS UNDER THE FOREIGN ASSISTANCE ACT OF 1961.

(a) * * *

* * * * *

(c) **ADDITIONAL TERMS AND CONDITIONS.**—**[The following]** (1) *The following* additional terms and conditions shall apply to the reduction of debt under subsection (a)(1) in the same manner as such

terms and conditions apply to the reduction of debt under section 704(a)(1) of this Act:

[(1)] (A) The provisions relating to repayment of principal under section 705 of this Act.

[(2)] (B) The provisions relating to interest on new obligations under section 706 of this Act.

(2) *In addition to the application of the provisions relating to repayment of principal under section 705 of this Act to the reduction of debt under subsection (a)(1) (in accordance with paragraph (1)(A) of this subsection), repayment of principal on a new obligation established under subsection (b) may be made in the local currency of the beneficiary country and deposited in the Tropical Forest Fund of the country in the same manner as the provisions relating to payment of interest on new obligations under section 706 of this Act.*

(d) AUTHORIZATION OF APPROPRIATIONS FOR FISCAL YEARS AFTER FISCAL YEAR 2001.—For the cost (as defined in section 502(5) of the Federal Credit Reform Act of 1990) for the reduction of any debt pursuant to this section or section 807, there are authorized to be appropriated to the President the following:

(1) * * *

* * * * *

(4) \$20,000,000 for fiscal year 2005.

(5) \$25,000,000 for fiscal year 2006.

(6) \$30,000,000 for fiscal year 2007.

(e) *USE OF FUNDS TO CONDUCT PROGRAM AUDITS AND EVALUATIONS.—Of the amounts made available to carry out this part for a fiscal year, \$200,000 is authorized to be made available to carry out audits and evaluations of programs under this part, including personnel costs associated with such audits and evaluations.*

SEC. 807. REDUCTION OF DEBT OWED TO THE UNITED STATES AS A RESULT OF CREDITS EXTENDED UNDER TITLE I OF THE AGRICULTURAL TRADE DEVELOPMENT AND ASSISTANCE ACT OF 1954.

(a) * * *

* * * * *

(c) **ADDITIONAL TERMS AND CONDITIONS.**—**[The following]** (1) *The following additional terms and conditions shall apply to the reduction of debt under subsection (a)(1) in the same manner as such terms and conditions apply to the reduction of debt under section 604(a)(1) of the Agricultural Trade Development and Assistance Act of 1954 (7 U.S.C. 1738c):*

[(1)] (A) The provisions relating to repayment of principal under section 605 of such Act.

[(2)] (B) The provisions relating to interest on new obligations under section 606 of such Act.

(2) *In addition to the application of the provisions relating to repayment of principal under section 605 of the Agricultural Trade Development and Assistance Act of 1954 to the reduction of debt under subsection (a)(1) (in accordance with paragraph (1)(A) of this subsection), repayment of principal on a new obligation established under subsection (b) may be made in the local currency of the beneficiary country and deposited in the Tropical Forest Fund of the*

country in the same manner as the provisions relating to payment of interest on new obligations under section 606 of such Act.

* * * * *

SEC. 810. TROPICAL FOREST FUND.

(a) ESTABLISHMENT.—Each beneficiary country that enters into a Tropical Forest Agreement under section 809 shall be required to establish a Tropical Forest Fund to receive payments of interest *and principal* on new obligations undertaken by the beneficiary country under this part.

* * * * *

