

# NATURE AS AN ASSET CLASS

THE NEW EU FINANCIAL MARKET  
ON BIODIVERSITY DESTRUCTION

May 2021



# Table of contents

<b>3</b>	<b>EXECUTIVE SUMMARY</b>
<b>5</b>	<b>INTRODUCTION</b>
<b>7</b>	<b>NATURAL CAPITAL - A NEW CONCEPT OF NATURE</b>
<b>7</b>	<b>a. Putting a price on nature</b>
<b>8</b>	<b>b. Intractable issues</b>
<b>10</b>	<b>c. Better than nothing?</b>
<b>11</b>	<b>BIODIVERSITY OFFSET MARKETS</b>
<b>11</b>	<b>a. What is offsetting?</b>
<b>12</b>	<b>b. Is it effective?</b>
<b>15</b>	<b>c. The EU 2030 Biodiversity strategy</b>
<b>16</b>	<b>d. The potential role of sustainable finance</b>
<b>17</b>	<b>e. Why are market-based solutions still being pursued?</b>
<b>18</b>	<b>SIMPLIFIED EXPLANATORY DIAGRAM</b>
<b>19</b>	<b>ALTERNATIVE SOLUTIONS &amp; NEXT STEPS</b>
<b>19</b>	<b>a. Back to basics</b>
<b>20</b>	<b>b. A busy political agenda</b>

**Green Group – Cluster Ecological Transition**

**Responsible MEP : Marie Toussaint**

**Author : Frédéric Hache**

# Executive summary

Biodiversity loss is reaching critical levels and scientists are warning that we are entering the 6<sup>th</sup> mass extinction of species. The rate of species extinction might be 100 times higher this time round than during the previous mass extinctions, with up to 75% of species expected to disappear over the coming centuries.

In May 2020, the European Commission published its Biodiversity Strategy, which *“aims to ensure that Europe’s biodiversity will be on the path to recovery by 2030 for the benefit of people, the planet, the climate and our economy, in line with the 2030 Agenda for Sustainable Development and with the objectives of the Paris Agreement on Climate Change”*

This Strategy aims to:

- “1. Legally protect a minimum of 30% of the EU’s land area and 30% of the EU’s sea area and integrate ecological corridors, as part of a true Trans-European Nature Network.*
- 2. Strictly protect at least a third of the EU’s protected areas, including all remaining EU primary and old-growth forests.*
- 3. Effectively manage all protected areas, defining clear conservation objectives and measures, and monitoring them appropriately.”<sup>1</sup>*

2021 is going to be a key year for the protection of biodiversity which will see the implementation of the EU Biodiversity Strategy and UN COP on Biodiversity in China. We can expect that restoring nature will therefore be a central element of global biodiversity strategies, offering immediate trade and investment opportunities for the EU economy. A “financialization” of nature is thus underway.

One of the key discussions in the months to come is how we value nature. A **new vision of nature called ‘natural capital’ is being promoted** by some which considers nature as a list of services rendered to human beings. This vision also fosters the **monetary valuation of nature** (putting a price on these ‘services’) and the possibility to **offset nature’s destruction rather than focusing on avoiding or curbing its destruction.**

---

<sup>1</sup> <https://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1590574123338&uri=CELEX:52020DC0380>

In this context, political leaders could agree to create new markets for biodiversity offsetting, both at EU and international levels. These markets would be similar in many respects to the Kyoto Protocol's carbon offsetting markets; mechanisms created over the last 20 years that have facilitated the trading of carbon permits in order to reduce greenhouse gas emissions. But biodiversity offsetting markets would likely have a negative impact in the end, as it is much more complicated to try and transform biodiversity into a tradable commodity.

In theory, there is a clear hierarchy of actions that should be taken in favor of biodiversity:

1. Avoid negative impacts on biodiversity
2. Reduce, when they cannot be avoided, negative impacts on biodiversity
3. Only compensate negative impacts on biodiversity when these impacts cannot be avoided or minimised.

However, it seems that there is an absence of clear rules on how to apply this hierarchy and there is evidence that this hierarchy is rarely enforced in practice<sup>2</sup>.

Indeed, previous experiences have demonstrated that **we are unable to place a meaningful monetary value on nature**, and that at best we grossly underestimate the cost of its destruction.

It has also been shown that it is **either impossible or prohibitively costly to recreate the functions of ecosystems which have been destroyed**, meaning that restoration projects cannot be considered to offset destruction. In other words, restoring nature is far less effective than curbing its destruction in the first place. These two actions cannot be put on an equal footing, and curbing nature destruction should always be prioritised, especially as it is a far less expensive option.

These potential new financial markets of biodiversity offsetting run a great risk of turning into an environmental failure, especially if biodiversity offsetting projects are labelled as sustainable investments under European rules. Other alternatives should be promoted instead such as binding regulations to halt the destruction of biodiversity in the first place. We have seen positive examples in the past of successful legislation that resulted in great environmental gains like the ozone layer or with asbestos. In our views, binding legislation is more effective than market-based solutions and should be prioritized in the context of the implementation of the EU Biodiversity Strategy.

The European Parliament will have a crucial role to play over the next two years to ensure that European biodiversity policies are based on robust policy tools, maximising their chances of achieving their objectives. Greens/EFA intend to be a key player in these discussions.

---

2 International Union for Conservation of Nature and the Species Survival Commission, 2014 Annual Report of the Species Survival Commission and the Global Species Programme, 2014. <https://portals.iucn.org/library/sites/library/files/documents/2015-024.pdf> Maron Martine et al. Taming a Wicked Problem: Resolving Controversies in Biodiversity Offsetting, BioScience 66:6, 489-98, June 2016. Online. Available at: <https://academic.oup.com/bioscience/article/66/6/489/2754298>

# Introduction

Biodiversity loss is reaching critical levels and scientists are warning that we are entering the 6<sup>th</sup> mass extinction of species. The rate of species extinction might be 100 times higher today than during previous mass extinctions, with up to 75% of species expected to disappear over the coming centuries<sup>3</sup>. Researchers talk about 'biological annihilation'<sup>4</sup>, and scientists recently warned that this may be a tipping point for the collapse of civilisation<sup>5</sup>.

Addressing biodiversity loss is thus one of the major issues of our generation. While the focus in public debates is on the headline objectives, the policy tools used to achieve these objectives are rarely debated.

These tools are however just as important and are in the process of changing significantly. The EU 2030 Biodiversity Strategy published in May 2020 was a welcome step. Greens/EFA applauded, in particular, the Commission's ambition to protect 30% of land and sea areas by 2030 and a target of setting aside at least 10% of agricultural land for wildlife, allowing biodiversity to thrive on farms and thus improving productivity and fertility<sup>6</sup>. The Greens also called for upcoming actions to match the scale of what is necessary to protect our vital marine and land-based habitats, especially in strictly protected areas. We need legally binding targets and measures to ensure nature-based solutions are fully recognised and implemented.

Future legally binding regulations and directives should be led by social and ecological concerns and not skewed by the misguided agendas of more commercially-led interests. Instead, there is a worrying trend of new terms appearing in media articles, such as 'natural capital,' 'net gain principle,' 'ecosystem services' or 'nature-based solutions.'

---

3 <https://www.nationalgeographic.fr/environnement/la-sixieme-extinction-massive-deja-commence>

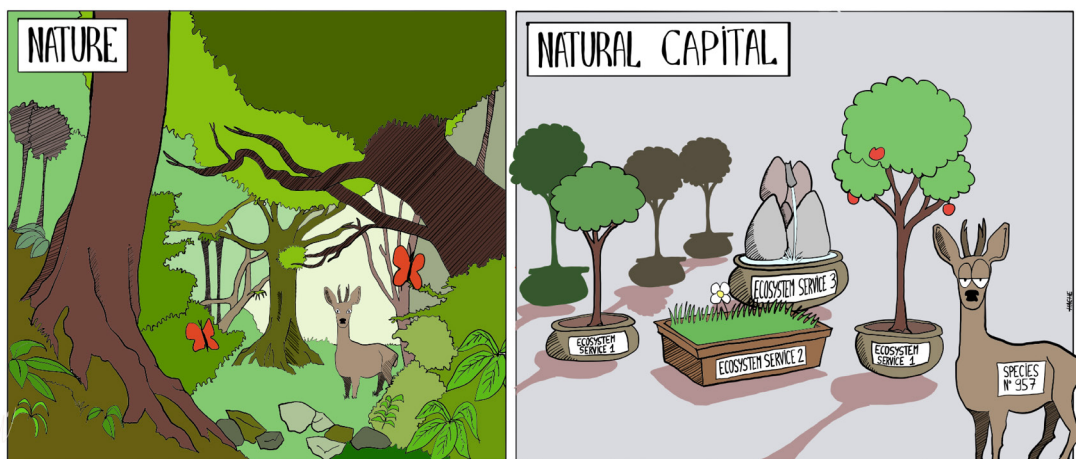
4 <https://www.theguardian.com/environment/2017/jul/10/earths-sixth-mass-extinction-event-already-underway-scientists-warn>

5 <https://www.pnas.org/content/117/24/13596>

6 <https://www.greens-efa.eu/en/article/press/eu-commission-proposals-must-kick-start-agricultural-reform/>

The Biodiversity Strategy itself puts the focus on biodiversity restoration over preventing nature destruction, and also fosters the monetary valuation of nature. According to the Strategy, the forthcoming EU Nature Restoration Plan will *‘help ensure the long-term productivity and value of our natural capital. (...) The Commission will further promote tax systems and pricing that reflect environmental costs, including biodiversity loss. (...) The Commission will support the establishment of an international natural capital accounting initiative’*.

This short policy brief aims to explain the concept of ‘natural capital’ (Chapter 1) as a new framing of nature in which it is considered as a list of services benefitting humans. It also explains what biodiversity offset markets are (Chapter 2), how they were developed and how they could look in the European context. Finally, it explores alternatives to these markets (Chapter 3) in the form of binding legislation before looking at other upcoming European opportunities to strengthen nature protection.



7 <https://greenfinanceobservatory.org/wp-content/uploads/2020/05/GFO-5-questions-EU-biodiversity-strategy.pdf>

# Natural capital - a new concept of nature

## a. Putting a price on nature

Natural capital is a very specific framing of nature that has emerged over the past decades: nature and ecosystems are conceptualised as a list of services that benefit humans, such as pollination, flood prevention etc... All the ecosystemic functions and species that do not benefit humans are implicitly ignored: for instance, plants that are not edible nor considered pretty, species that are considered by some as 'pests'. As importantly, ecosystem services require beneficiaries to be valued: the flood prevention service provided by a forest will be valued at zero if no humans live nearby and can benefit from this service for example.

This concept is based on the idea that we need to put a price on nature to save it. It is assumed that environmental laws have failed to protect biodiversity and that a price-based mechanism would be more effective to incentivize a change in behaviour.

Nature is artificially split into unbundled "ecosystem services." These services are measured, and then valued in monetary terms.

There are two main methods to put a price on nature:

1. **Revealed preference methods:** Prices are inferred from the prices of goods and services traded in markets. For example, let's imagine two identical flats where only the second one has a view over Central Park. The first one sold for \$1 million, whereas the second one sold for \$1,5 million.

This method will consider that the price difference represents the value of a view over Central Park and a meaningful factor in determining the value of Central Park<sup>8</sup>.

In reality, this method suffers from several biases, as recognised by the UN itself: for example,

---

8 Hache F, 50 shades of green. Part. II: The fallacy of environmental markets, Green Finance Observatory  
<https://greenfinanceobservatory.org/wp-content/uploads/2019/05/50-shades-biodiversity-final.pdf>



the price differential may reflect social rather than environmental preferences, i.e., the buyer of the second flat may have purchased it for prestige and social status reasons, rather than environmental ones.

2. **Stated preference methods:** these methods are mostly based on surveys. People are being asked how much they are willing to pay for a natural site not to be destroyed, or inversely how much they want to receive in exchange for its destruction. As an example, a 1980 survey asked residents of Chicago how much they would be willing to pay to preserve the visibility over the Grand Canyon. The average price was \$90. A similar survey was conducted a year and a half later, and the average answer came this time at \$16<sup>9</sup>.

Interestingly enough, the UN itself does not recommend the use of its valuation methodologies as its designers disagree on the relevance of the figures produced<sup>10</sup>.

## b. Intractable issues

The concept of natural capital relies on several debatable assumptions.

### I. POLLUTING IS FREE

Proponents of the financialization of nature argue that polluting is currently free, and that by making polluters pay, this would incentivise a change in behaviour. Not only is polluting not free – many environmental regulations put fines on polluters – but the polluter pay model has been tried for 15 years for climate change and failed: for example, the EU Emissions Trading Scheme, as it currently exists, with its loopholes regularly highlighted by the Greens, has not contributed to a significant reduction in emissions. The lesson learnt here is that putting a price enables the status quo to continue – as long as you pay the (generally low) price.

### II. BINDING ENVIRONMENTAL REGULATIONS DO NOT WORK

Environmental degradation is taken as evidence that regulations have failed. Yet, the data shows that the opposite is true and that binding environmental regulations have an excellent track record, whether to stop the hole in the ozone layer, ban asbestos or mandate catalytic converters<sup>11</sup>. The issue is therefore not the lack of effectiveness but the lack of strict enough regulations and poor implementation.

---

9 Diamond Peter A., Hausman Jerry A. et al., Chapter II - Does Contingent Valuation Measure Preferences? Experimental Evidence, Contributions to Economic Analysis 220, 41-77, 79-85, 87-89, 1993. Online: <https://www.sciencedirect.com/science/article/pii/B9780444814692500080>

10 “This chapter presents possible areas of integration of ecosystem accounting and standard presentations of economic accounts, but deliberately abstains from providing specific recommendations, for the following reasons: (a) There are differing views on the meaning of integrated measures and accounts in the light of the assumptions required for valuation in monetary terms and, therefore, on the ability to use integrated measures and accounts for policy purposes”. UN, Environmental-Economic Accounting Framework, <https://seea.un.org/fr/ecosystem-accounting>

11 Fatheuer Tomas, New economy of nature - A critical introduction, Heinrich Böll Stiftung 35, 2014 [https://www.boell.de/sites/default/files/new-economy-of-nature\\_kommentierbar.pdf?dimension1=ds\\_oekonomie\\_natur\\_en](https://www.boell.de/sites/default/files/new-economy-of-nature_kommentierbar.pdf?dimension1=ds_oekonomie_natur_en)



### III. A PRICE-BASED MECHANISM WOULD BETTER PROTECT NATURE

Let us take the example of a coffee grower in Columbia, whose plantation is next to a forest that hosts a colony of bees. The bees are useful at harvest time because they pollinate the coffee, so the farmer might be willing to pay the owner of the forest not to cut it down. However, if the farmer switches from coffee to pineapple the following year, the bees do not contribute anything to the pineapple plantations, and could even damage them. In this case, the farmer has no longer any interest in paying to maintain the forest, on the contrary, he would be better off cutting it down. This example illustrates the fickleness of conservation based on prices: there will always be a time when it will be more financially advantageous to destroy rather than conserve.

### IV. WE UNDERSTAND NATURE ENOUGH TO PUT A PRICE ON IT

Putting a price on nature and thus determining what is valuable and what is not requires a thorough understanding and scientific knowledge of ecosystems and their interactions. Yet, we are still discovering on average 18,000 new species each year<sup>12</sup>. We are also unable to describe with certainty all the benefits provided by a given species or ecosystem, or the impact of human activities on it.

Putting a price on nature with this incomplete knowledge means that we could inadvertently ignore some crucial ecosystemic functions or interactions and value them at zero. This could in turn lead to the irreversible destruction of crucial habitats, species or functions. As an example, we do not know from which plant or bacteria will come the next generation of antibiotics.

### V. ALL THE MULTIPLE VALUES OF NATURE CAN BE REFLECTED IN PRICES

Some natural sites have cultural or spiritual values that cannot be reflected in prices. Prices also cannot replace moral and political choices about our attitude towards nature. As an example, a price-based approach would be considered inappropriate to address issues such as racial segregation: no matter the price you are willing to pay, it doesn't make it acceptable. Similarly, the cultural and spiritual values of certain natural places cannot be reflected in prices.

In addition, since we cannot live without biodiversity, the cost of destroying biodiversity is actually infinite.

### VI. NATURAL CAPITAL REPRESENTS NATURE

In reality, the main models acknowledge that they only measure and value the main ecosystem services, while ignoring the others and ignoring as well many ecosystemic interdependencies, as modelling them all would be too complicated<sup>13</sup>.

---

12 Forbes, B-A Parnell, Top 10 Brand New Species 2018 - Including One That Was Found In An Aquarium, <https://www.forbes.com/sites/bridaineparnell/2018/05/23/top-10-brand-new-species-2018-including-one-that-was-found-in-an-aquarium/#470ae6f65ccc> Ceballos, Ehrlich, Discoveries of new mammal species and their implications for conservation and ecosystem services, PNAS, <https://www.pnas.org/content/106/10/3841>

13 "It is generally impossible to describe all the services provided by an ecosystem. Fortunately, in order to implement (...) VEA (monetary valuation), it is not necessary to define all possible services, but only a few significant services. "REMEDE, Deliverable 13 (D13): Toolkit, May 2006 <http://www.envliability.eu/publications.htm>

As an example, a forest provides a large number of ecosystem services, ranging from CO<sub>2</sub> storage to the prevention of soil erosion and flooding, to climate stabilisation and the provision of habitats for a large number of species. Natural capital will focus on a few services and ignore the rest, which is essential for the survival of the whole, but will be valued at zero and can therefore be destroyed for free.

Natural capital is therefore not nature, not even a proxy. This is a major issue, as **you cannot protect nature relying on a concept that does not represent nature.**

If we add up the selective measurement and valuation of a few services, considering the biased valuation methodologies, we end up with meaningless figures.

## VII. LARGE-SCALE FOREST CARBON SEQUESTRATION & OFFSETTING COULD CAUSE FOOD PRICES TO SKYROCKET

A recent study published in the journal *Environmental and Resource Economics* found that *‘meeting half the Paris Agreement’s goal for atmospheric carbon reduction would send food prices soaring, especially in developing economies. In some places, food prices would get so high that it would never happen (...) Significant forest carbon sequestration leads to reductions in food supply at the same time we’re expecting population increases. This is a simple supply and demand problem.’* As forest carbon sequestration competes with cropland and affects disproportionately the poor, it can at best only be a small piece of the puzzle. As one of the authors of the study put it, *‘if we want to be serious about climate change, there is no way around reducing emissions’<sup>14</sup>.*

### c. Better than nothing?

Some claim that while this approach may not be perfect, its merits still outweigh its flaws. This is not the case: wrong figures can give a false sense of security, override precautionary principles and lead to the wrong policy decisions, with irreversible consequences.

In addition, the European commission has introduced a new rule called ‘one in, one out.’ This rule stipulates that any new regulation requires scrapping an existing one. This means that new ineffective regulations could also lead to removing existing effective ones, making them worse than nothing.

Last, ‘better than nothing’ is a moot argument, since there couldn’t be ‘nothing’: no government today could declare that it has decided to do nothing to address the crucial loss of biodiversity

---

<sup>14</sup>“When modelling ecosystem services, it is not possible to include all drivers of variation and their interactions in the models.” European Commission, Establishing a European System of Accounts for Ecosystems and their Services, 2017 [http://publications.jrc.ec.europa.eu/repository/bitstream/JRC107150/jrc107150\\_jrc107150\\_jrc\\_report\\_ecosystem\\_services\\_accounts\\_final\\_pubsy.pdf](http://publications.jrc.ec.europa.eu/repository/bitstream/JRC107150/jrc107150_jrc107150_jrc_report_ecosystem_services_accounts_final_pubsy.pdf)

# Biodiversity offset markets

## a. What is offsetting?

Biodiversity offsetting refers to actions, such as restoring degraded land, that are intended to compensate for biodiversity destruction taking place at a different time and place.

An offset market is created when a law requires companies to offset their negative impact on biodiversity, through actions such as restoration projects. These actions grant the right to tradable permits to destroy biodiversity elsewhere. If a company has destroyed more biodiversity than it has permits for, it can either perform “offsetting actions” or buy permits from another company. Correspondingly, a company that owns more permits than it has destroyed can choose to sell its excess permits to another company. The legislation that creates the market determines the rules surrounding the permits.

The stated objective of these markets is to minimise the cost to companies of complying with the regulations: since companies can freely trade permits to destroy, it is considered that those that can reduce their destruction of a lower cost nature will reduce it first, and sell their unused destruction permits to other companies for which stopping destruction would be more costly<sup>15</sup>.

These markets rely on the concept of natural capital and the restoration obligations related to the “ecosystem services” mentioned above.

Let’s take the example of a company wanting to build an airport in the South of Spain in an area that is a habitat for flamingos. With biodiversity offsetting, the law would allow the construction of the airport, provided that the company tries to avoid or minimize the impact on biodiversity. Any residual impact must be offset by recreating a habitat for flamingos within a radius of X kilometres

---

15 What is negotiated on the market is actually not the protection of nature but the cost of obeying the regulations. It is as if we were allowing the sale of driving licence points between motorists: the price of the licence point would in a way be the price to pay for not obeying the highway code.

(in reality, most of the time we are unable to recreate comprehensively all the ecosystem functions destroyed).

A few years ago, the European Commission proposed an extreme version of biodiversity offsetting called **Habitat Banking**: The European Commission commissioned a study on Habitat Banking in 2010, tried to introduce it in the Habitats and Birds directives in 2014 during a fitness test, but ultimately backed down due to overwhelming public outcry<sup>16</sup>.

If we take the previous example, the residual impact on biodiversity would need to be compensated not within a few kilometres but somewhere in Europe, and no longer by building a flamingo habitat but by an ecosystem service of equivalent monetary value. In other words, the builder could, for example, plant trees in Romania and this would be considered as compensation for the destruction of the flamingo habitat in Spain.

## b. Is it effective?

### I. A POOR TRACK RECORD

Biodiversity offsetting already exists in several countries, including Australia, Canada, and the USA, and in most cases offset projects have been shown to fail.

In Australia, a report by the Nature Conservation Council<sup>17</sup> found that ‘in 75% of cases, offsets resulted in “Poor” or “Disastrous” outcomes for wildlife and bushland, while only 25% resulted in “Adequate” outcomes. None resulted in “Good” outcomes for nature.’

In Canada, researchers found that 63% of projects that offset fish habitat loss failed to achieve their targets<sup>18</sup>.

In the USA, scientists looking at 12 of the longest established wetland mitigation areas in Ohio found that many did not even meet the regulation’s objectives<sup>19</sup>.

This is not surprising as restoration is a recent discipline, and recreating ecosystems with all their species and functions has proven so far to be either prohibitively expensive or impossible<sup>20</sup>.

---

16 Eftec, IEEP et.al (2010) The use of market-based instruments for biodiversity protection -The case of habitat banking [http://ec.europa.eu/environment/enveco/pdf/eftec\\_habitat\\_technical\\_report.pdf](http://ec.europa.eu/environment/enveco/pdf/eftec_habitat_technical_report.pdf)

17 Nature Conservation Council of NSW, Paradise Lost - The weakening and widening of NSW, biodiversity offsetting schemes, 2005-2016, 2016. Available at: [https://www.nature.org.au/media/265228/bio-offsetting-report\\_v14.pdf](https://www.nature.org.au/media/265228/bio-offsetting-report_v14.pdf)

18 Quigley JT1, Harper DJ, Effectiveness of fish habitat compensation in Canada in achieving no net loss, Environmental management, 2006. <https://www.ncbi.nlm.nih.gov/pubmed/16456631>

19 Mack John J., Micacchion Mick, An ecological assessment of Ohio mitigation banks: Vegetation, Amphibians, Hydrology, and Soils. Ohio EPA Technical Report WET/2006-1. Ohio Environmental Protection Agency, Division of Surface Water, Wetland Ecology Group, Columbus, Ohio, 2006. [https://www.epa.state.oh.us/Portals/35/wet-lands/Bank\\_Report\\_Ohio\\_Final.pdf](https://www.epa.state.oh.us/Portals/35/wet-lands/Bank_Report_Ohio_Final.pdf)

20 Bekessy Sarah A., et al. The biodiversity bank cannot be a lending bank, Conservation Letters <https://onlinelibrary.wiley.com/doi/full/10.1111/j.1755-263X.2010.00110.x>

Even the UN has warned that “restorations should not be seen as offsetting the decline (...) of other ecosystem assets because the impacts (...) are unlikely to be comparable. »<sup>21</sup>

One of the main manuals on nature conservation<sup>22</sup> provides the following example: a river popular for fishing has been accidentally contaminated by chemical waste. It is estimated that 600 fishing days with an individual value of €25 will be lost over the next 3 years as a result of this pollution, i.e. €15,000. The manual estimates that the environmental degradation will be compensated by restoration activities of equivalent monetary value. It is interesting to note that the impact of the pollution on fauna other than fish and flora is ignored, not to mention the fancy valuation methodology.

## II. SOCIAL EQUITY ISSUES

Habitat banking enables restoration projects to take place in a different geographical area than that where the environmental degradation happened. As a consequence, the beneficiaries of the restoration are likely to be different from the people who suffered from the degradation.

The scale of the restoration projects foreseen is staggering, representing an area roughly the size of China<sup>23</sup>. This may generate conflicts over land or land use and a related increase in food prices.

Some NGOs have also warned about the very high risk of land-grabbing and forced migrations.

It is estimated that 50% of the world's land is occupied by local and indigenous communities, but that they legally own only 10% of the land<sup>24</sup>, as ownership rights are not formalised in many places. In the race to find cheap land for restoration projects, there is a great risk that these communities will be evicted from their land.

Indeed, a number of restoration projects have already resulted in land grabbing, evictions of indigenous communities and human rights violations<sup>25</sup>.

---

21 UN, Environmental-Economic Accounting Framework, <https://ec.europa.eu/eurostat/documents/3859598/6925551/KS-05-14-103-EN-N.pdf>

22 Draft 13 REMEDE Toolkit for Performing Resource Equivalency Analysis to Assess and Scale Environmental Damage in the European Union <http://www.envliability.eu/>

23 UNEP, Countries commit to restore global land area the size of China, 19 Nov 2020, <https://www.unep.org/news-and-stories/story/countries-commit-restore-global-land-area-size-china>

24 World Resource Institute, By the Numbers: Indigenous and Community Land Rights, <https://www.wri.org/blog/2017/03/numbers-indigenous-and-community-land-rights#:~:text=10%25,over%20an%20additional%208%20percent>.

25 Kill J, Franchi G, Rio Tinto's biodiversity offset in Madagascar - Double land grab in the name of biodiversity? World Rainforest Movement, Re:Common, March 2016., [https://wrm.org.uy/wp-content/uploads/2016/04/RioTintoBiodivOffsetMadagascar\\_report\\_EN\\_web.pdf](https://wrm.org.uy/wp-content/uploads/2016/04/RioTintoBiodivOffsetMadagascar_report_EN_web.pdf)

Vidal John, The tribes paying the brutal price of conservation, The Guardian, August 2016, <https://www.theguardian.com/global-development/2016/aug/28/exiles-human-cost-of-conservation-indigenous-peoples-eco-tourism>

Re:common, Turning forests into hotels The true cost of biodiversity offsetting in Uganda, Apr 2019, <https://www.recommon.org/eng/turning-forests-into-hotels-the-true-cost-of-biodiversity-offsetting-in-uganda/>

IWGIA, New green powers in the global land grab violate indigenous peoples' rights, <https://www.iwgia.org/en/focus/land-rights/2520-new-green-powers-in-the-global-land-grab-violate-indigenous-peoples-rights>

International Institute for Environment and Development, 'Land grabbing': is conservation part of the problem or the solution <https://pubs.iied.org/pdfs/17166IIED.pdf>

### III. NO PRICE SIGNAL

A biodiversity offset market is based on the idea that the price of permits to destroy biodiversity will increase over time, incentivising a change in behaviour to reduce destruction. This is called a 'price signal.'

In reality, it has been shown that prices are far too volatile for any trend to be observable on prices<sup>26</sup>. This is due to the high proportion of speculators. This means that there is no price signal, therefore that these markets will never be able to achieve their objectives and should be abandoned. The issue is not the absolute level of the prices but rather the excessive price fluctuations.

In view of the above, the conclusion is clear: biodiversity offset markets trade permits to destroy certain ecosystem services while ignoring others, the value of which is determined by biased methodologies and whose price fluctuates according to the moods of speculators. These markets are based on the incorrect idea that we are capable of compensating for destruction, and on the other incorrect idea that prices will gradually rise and induce a change in behaviour. It is therefore unfortunately clear that these markets will never be able to protect biodiversity - not least because what is traded on them has little to do with biodiversity - and it is therefore a dead-end concept that must be abandoned.

More and more people are aware that offsetting does not offset in reality, as shown by the appalling track record of carbon offset markets over the past 12 years. The term offsetting has disappeared from media articles and legislative proposals, to be replaced by terms such as '**restoration**,' '**nature-based solutions**' or '**natural climate solutions**.'

The '**Net Gain**' principle on which is based the EU 2030 biodiversity strategy also outlines offsetting: Net gain is defined as 'giving back to nature more than it receives from it'<sup>27</sup>. In other words, this means allowing destruction to continue, as long as you 'compensate' for just a little more than you destroy. The equivalent term in UN language is '**land degradation neutrality**.'

Likewise, references to 'putting a price on nature' are now being replaced by references to 'measuring the cost of nature's destruction' and references to 'natural capital accounting' are starting to be replaced by references to 'sustainable accounting.' Such linguistic shifts might get in the way of a much-needed public debate on these issues of crucial public interest.

It is important to highlight that **restoring degraded land is a good thing, but only if it comple-**

---

Global Witness, Defenders of the Earth - Global killings of land and environmental defenders in 2016, [https://www.globalwitness.org/documents/19122/Defenders\\_of\\_the\\_earth\\_report.pdf.pdf](https://www.globalwitness.org/documents/19122/Defenders_of_the_earth_report.pdf.pdf)

BuzzFeed News, WWF Funds Guards Who Have Tortured And Killed People, <https://www.buzzfeednews.com/article/tomwarren/wwf-world-wide-fund-nature-parks-torture-death>

26 Bouleau Nicolas, Le mensonge de la finance, Éditions de l'Atelier, 2018, <https://www.babelio.com/livres/Bouleau-Le-mensonge-de-la-finance/1024693>

27 European Commission, Q&A: EU Biodiversity Strategy 2030 - Bringing nature back into our lives [https://ec.europa.eu/commission/presscorner/detail/fr/qanda\\_20\\_886](https://ec.europa.eu/commission/presscorner/detail/fr/qanda_20_886)

**ments a reduction in destruction.** If restoration is prioritized over reducing destruction, it would be counterproductive, because it allows destruction to continue while pretending to compensate, when in reality restoration almost never compensates for destruction.

Abandoning offset markets simply means abandoning a tool that does not work and replacing it with one that does – traditional binding environmental regulations - while maintaining our current biodiversity targets and international commitments. As such, this can be easily done, all the more so that these markets have not yet been created.

### c. The EU 2030 Biodiversity strategy

Biodiversity offset markets have been promoted for years by the European Commission, the World Bank and the UN<sup>28</sup>, but they do not yet exist in Europe or at the international level. This will likely change in the years to come.

Creating a biodiversity offset market requires 3 things:

- New legislation introducing mandatory restoration targets, in order to create the demand
- A policy framework that considers that restoration compensates for destruction taking place elsewhere and at a different time;
- A market framework allowing for the free trading of offset permits.

The EU 2030 biodiversity strategy foresees that the European Commission will propose a new legislation in 2021 introducing new mandatory restoration targets, as part of the objective to transform 30% of the land and seas into protected areas by 2030.

The EU biodiversity strategy is also already based on the 'Net Gain' principle described above<sup>29</sup>, that

---

28 OECD - Biodiversity: Finance and the Economic and Business Case for Action

<https://www.oecd.org/environment/resources/biodiversity/G7-report-Biodiversity-Finance-and-the-Economic-and-Business-Case-for-Action.pdf>

United Nations / Convention on Biological Diversity, Zero draft post-2020 biodiversity framework updated,

<https://www.cbd.int/doc/c/3064/749a/0f65ac7f9def86707f4eaeafa/post2020-prep-02-01-en.pdf>

Conseil d'analyse économique, Biodiversity in danger: what economic response? <http://www.cae-eco.fr/Biodiversite-quelle-reponse-economique>

Economic analysis consultancy, Ecological compensation: on demand or through the development of an offer?

<http://www.cae-eco.fr/Focus-no47-Compensation-ecologique-a-la-demande-ou-par-le-developpement-d-une>

European Commission, Fostering investment in Europe's natural capital, [https://ec.europa.eu/environment/efe/news/encouraging-investment-europes-natural-capital-2016-04-29\\_fr](https://ec.europa.eu/environment/efe/news/encouraging-investment-europes-natural-capital-2016-04-29_fr)

European Investment Bank, Natural Capital Financing Facility Promoting nature-based investments in biodiversity and climate change adaptation, <https://www.eib.org/fr/products/blending/ncff/index.htm>

Leaders' Pledge for Nature, <https://www.leaderspledgefornature.org/>

29 European Commission, The EU Biodiversity Strategy for 2020, [https://ec.europa.eu/environment/pubs/pdf/factsheets/biodiversity\\_2020/2020%20Biodiversity%20Factsheet\\_FR.pdf](https://ec.europa.eu/environment/pubs/pdf/factsheets/biodiversity_2020/2020%20Biodiversity%20Factsheet_FR.pdf)



stipulates that any damage to biodiversity and ecosystem services caused by human activities must be offset by at least equivalent gains.

Finally, the European strategy is based on the concept of natural capital, the idea of valuing certain parts of nature in monetary terms.

The combination of this financialized vision of nature, the principle of compensation and mandatory restoration objectives could create a European biodiversity compensation market as early as 2021.

It will be crucial to follow the details of the European proposal.

#### **d. The potential role of sustainable finance**

A list of green environmental activities has recently been defined at the EU level. A number of references in the legislative text suggest that the list may include biodiversity offsetting in the future. We will have to wait for the technical details that will be provided by the European Commission in December 2021 to know for sure.

It is important to understand that tomorrow's green finance will not be so much energy efficiency loans as "green" securitisations of offset projects, as the latter are much more profitable.

Securitisation is the financial technique that was at the heart of the 2008 crisis. It involves a bank transferring to investors loans that it has already granted. For example, Kevin and Julia each have to reimburse me 50 euros in one month but I need money today; I'm going to see John who will give me 80 euros right away and in exchange he will receive the reimbursements from Kevin and Julia. I transferred to John the loans I had granted to Kevin and Julia.

The inclusion of biodiversity offsetting in this list would be very problematic, as this would greatly foster the demand for offset markets and lead to a complete change of scale:

- Offset projects would be repackaged thanks to financial engineering into financial assets tailored to suit the desires of pension funds, thus opening up offset projects to the financial firepower of these enormous asset managers.
- These offset-based financial products would benefit from the Green bond label and other forthcoming Ecolabels on retail financial products, thereby generating more demand;
- They could also benefit from the massive public subsidies foreseen for green bonds, thus increasing their return and the demand for them.

#### **e. Why are market-based solutions still being pursued?**

Knowing all this, why are market-based solutions still being pursued? This question has multiple and partial answers, including the following ones.

## **I. SHORT-TERM ECONOMIC GROWTH REMAINS KEY**

Many policy makers fear that truly addressing biodiversity loss would have an adverse impact on growth, jobs and competitiveness.

It has already been shown that infinite economic growth is not possible in a world of finite natural resources. However, many elected officials fear that discussing the end of growth will open up a debate on the question of distribution: recognising that growth is limited removes the promise of a bigger piece of the pie, and opens up the question of how the pie will be shared. In other words, pretending that growth will continue avoids a debate on growing inequalities.

## **II. A POLITICAL SUCCESS AND AN ENVIRONMENTAL FAILURE**

Despite 15 years of lack of significant impact<sup>30</sup> of carbon markets<sup>31</sup>, market-based policies remain popular with a number of elected officials because they are both an environmental failure and a political success: by promising that the problem will be solved once the price of pollution or destruction is high enough, they always postpone action, and thus make it possible to reconcile seemingly fundamentally divergent interests. Markets make it possible to promise everyone everything: biodiversity will be saved once the price of its destruction is sufficiently high, and economic growth will continue.

In reality, as the carbon markets have shown, the price always remains too low to have any impact.

## **III. A HUGE PROFIT OPPORTUNITY?**

These new markets in nature are not only a way of maintaining the status quo while pretending to act, but they may also be a huge profit opportunity for the financial sector.

It is important to realise that there are thousands of billions of euros looking for investment opportunities and profits<sup>32</sup>. In a context of very low interest rates, the creation of a new type of financial product on nature with high margins creates colossal new profit perspectives, especially as investors are in demand for “green” savings products.

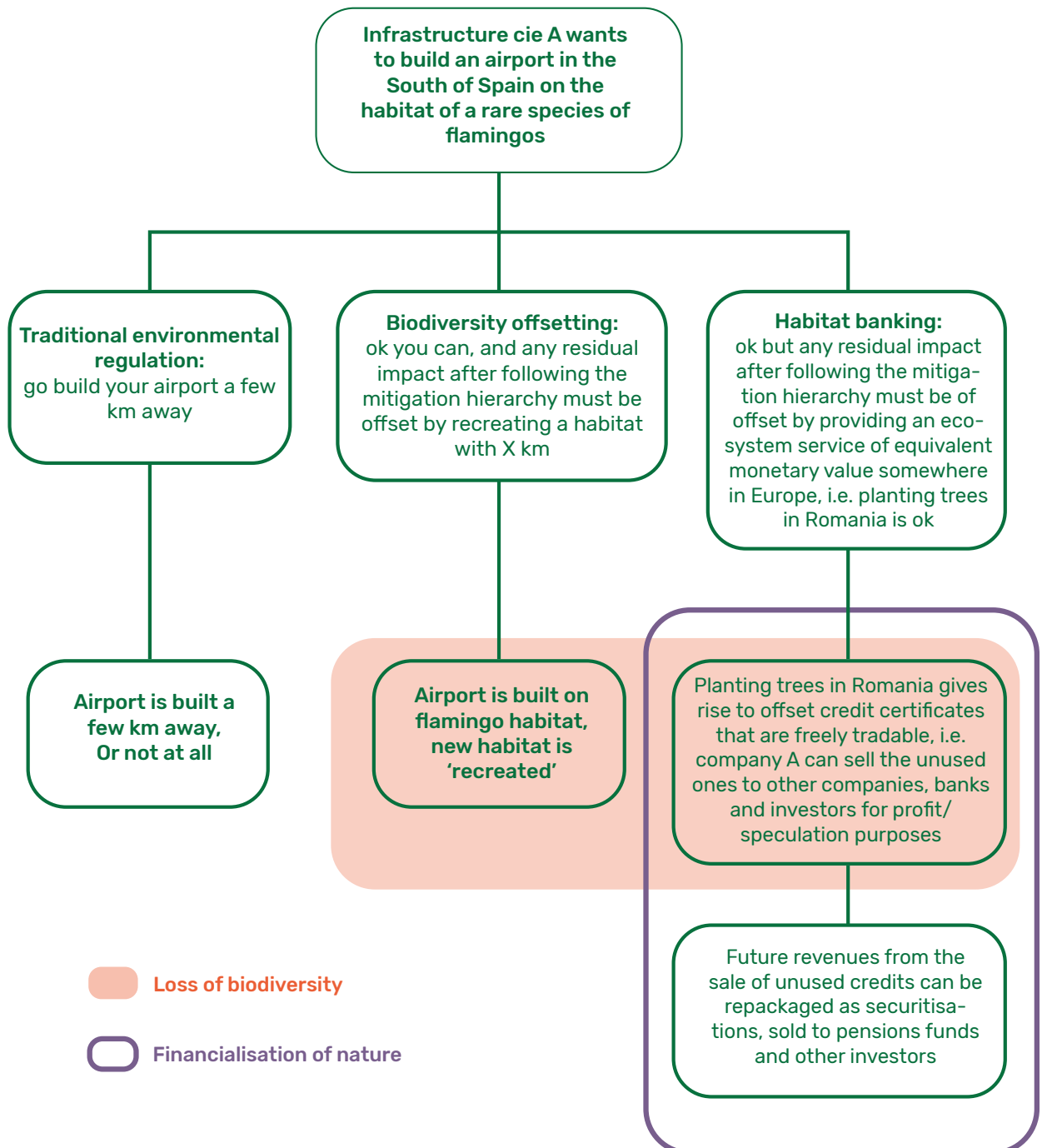
---

30 Nature, Feng K, Davis S, Sun L, Hubacek K, Drivers of the US CO<sub>2</sub> emissions 1997–2013, 21 July 2015, <https://www.nature.com/articles/ncomms8714> ; European Commission, The state of the European carbon market in 2012, 2012, <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52012DC0652&from=EN>

31 Hache F, 50 shades of green part I: carbon <https://greenfinanceobservatory.org/wp-content/uploads/2019/03/50-shades-carbon-final.pdf>

32 Les actifs sous gestion en Europe représentaient en 2018 23,000 milliards d’euros. EFAMA, 11th annual Asset Management Report, <https://www.efama.org/Pages/Submitted%20after%202018-03-12T16%2022%2007/Europe-an-assets-under-management-have-more-than-doubled-in-the-last-decade.aspx>

# Simplified explanatory diagram



# Alternative solutions & next steps

## a. Back to basics

One of the solutions is to go back to traditional policies that mandate a reduction in the destruction of biodiversity, as this type of policy has long proved to be effective.

### I. EXAMPLE OF THE “LOI LITTORAL” IN FRANCE

The law relating to the development, protection and enhancement of the coastline, known as the “loi littoral”, is a French law that aims to regulate the development of the coastline to protect it from the excesses of real estate speculation while allowing free public access to coastal paths. This law came into force in 1981. Its objectives include the limitation of urbanization in coastal areas, the allocation of the coastline to the public, and the management of the establishment of new roads. In addition, it aims to protect spaces of remarkable natural importance. The preservation of environments necessary to maintain biological and ecological balance, as well as the preservation and development of economic activities related to the proximity of water, also fall within the objectives of the coastal law.

If its results cannot be considered as perfect, it remains an efficient example of public policy allowing the preservation of biodiversity, without going through a market mechanism, while allowing the population access to natural areas.

### II. OTHER EXAMPLES OF POLICIES THAT CAN REDUCE THE DESTRUCTION OF BIODIVERSITY: IMPROVE EXISTING REGULATIONS

#### **Enforce the Birds and Habitats Directives: fully protect the Natura 2000 network and species**

There is still room to step up action against those who break the law. Member States have benefited for too long from a deregulatory agenda that has seen “soft enforcement” tactics dominate the last two decades, with very little results for biodiversity. The Commission should provide the necessary resources to its relevant departments to expedite enforcement actions for all violations of the Nature Directive.

#### **Establish conservation objectives and management plans for all Natura 2000 sites**

To date, only 23% of Special Protection Areas (SPAs) and only 46% of Sites of Community Importance have management plans or equivalent instruments. This situation is clearly unacceptable, as these are areas that have been designated for their high biodiversity value. The fact that the EU and its Member States are not devoting the necessary resources to biodiversity management planning is

a powerful indicator of why we are losing it at an unprecedented rate. Effective management plans should therefore be put in place.

**Member States must fully implement the directives** that are directly relevant to biodiversity, within the timeframes they already set. These include the Water Framework Directive, the Marine Strategy Framework Directive, the Common Fisheries Policy Regulations, the Maritime Spatial Planning Directive, the Environmental Impact Assessment Directive, the Strategic Environmental Assessment Directive, the Environmental Liability Directive and the Environmental Crime Directive.

**The Commission must initiate infringement** proceedings against any Member State that does not comply with its obligations. The Commission must also ensure that its action plan on environmental compliance and governance is implemented.

**The EU must ensure that no public subsidies or investments are detrimental to biodiversity.** This includes removing perverse incentives such as those that currently exist in the Common Agricultural Policy (CAP), bioenergy and international trade policies.

### **III. LINKING CLIMATE AND BIODIVERSITY: THE RISK OF A “NET” TARGET**

The increase in “**net zero emissions**” pledges from companies and governments, coupled with strategies that rely on offsets to deliver on these pledges, is driving an increase in demand for offsets. Governments are supporting this momentum, with the intention of using the 2021 Biodiversity and Climate Summits to further expand the carbon offsetting markets.

But offsets do not actually reduce atmospheric concentrations of carbon dioxide (CO<sub>2</sub>). At best, they do not result in a net increase in atmospheric concentrations, but global emissions, and thus CO<sub>2</sub> concentrations, continue to grow at a fatal rate.

Net zero emissions is therefore a smokescreen, a conveniently invented concept that is both dangerous and problematic because of the effectiveness with which it masks inaction. We need to look closely at these “net zero” strategies and promises and see which are credible and which are false. The false “zero” strategies rely on offsets rather than real emission reductions emissions. True “zero” strategies aim for truly zero emissions, or as close to zero as possible.

It is therefore necessary to set an absolute emission reduction target for the EU, and a separate target for absorption by carbon sinks. This does not mean that carbon sinks should not be protected and increased. It is a necessity but should be treated as a separate target. An absolute target also avoids the drift towards biodiversity offsets that are underpinned by a “net” target.

## **b. A busy political agenda**

The next two years are going to be crucial on these issues, with a huge amount of draft legislation underway at European and international level. This will provide many opportunities for the European Parliament to act.

## ENVI COMMITTEE

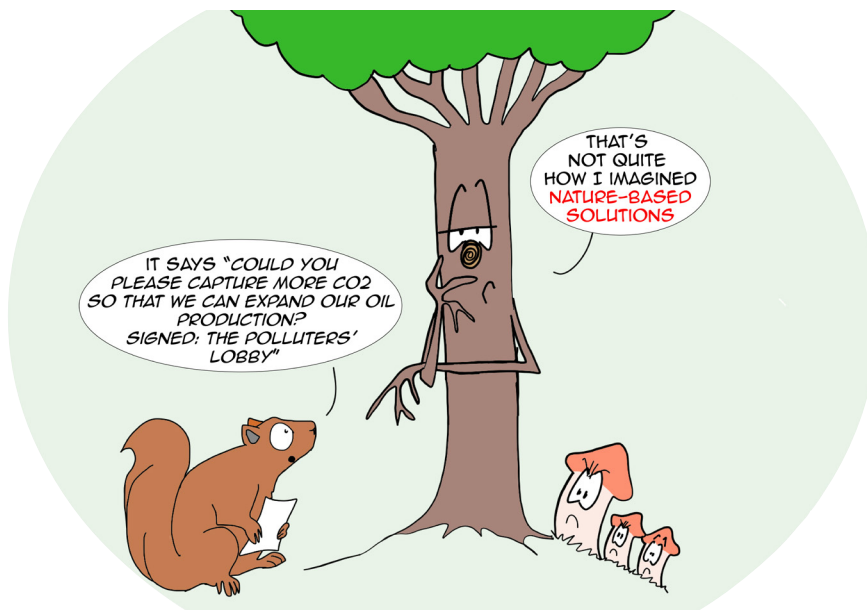
- **2020-2021 Negotiation of an agreement on an ambitious new post-2020 biodiversity framework at the 15th Conference of the Parties to the Convention on Biological Diversity (CBD COP15)**  
→ The Parliament's current position is to "*promote the establishment of additional international financial mechanisms for the protection and conservation of biodiversity related to the CBD.*"<sup>33</sup> This position could mean a call for the financialization of biodiversity and should be discussed among MEPs in the Greens/EFA group.
- **2021: Proposed objectives for nature restoration in the Union**  
→ The European Commission will propose binding restoration targets in 2021 as part of the 2030 EU Biodiversity Strategy. It will be crucial for the Parliament to ensure that these targets are in addition to and not instead of binding measures reducing biodiversity destruction, and that they are not financed by market mechanisms.
- **2021: New action plan for the conservation of fisheries resources and the protection of marine ecosystems**  
→ It will be necessary to ensure that this action plan does not promote carbon compensation via ocean storage (blue carbon).
- **2021: Guidance and support to Member States to identify sites and help them to mobilise the funds needed to restore 25,000 km of free-flowing rivers**  
→ It will be necessary to ensure that this initiative does not promote a financial market for water quality, i.e. a market for permits actors to pollute rivers, as foreseen in the natural capital framework.
- **2022: Action Plan for Integrated Nutrient Management**  
→ Same comment as above.
- **2021: Promote an international initiative for natural capital accounting**  
→ This initiative has been underway for years. It will be essential for the Parliament to analyse the details of this initiative and the accompanying accounting methodology to determine whether it is less fanciful than at present and consequently whether it should be supported or rejected (very likely).
- **From 2021: "NaturAfrica" initiative aimed at protecting wild fauna and flora as well as the environment.**  
→ It will be essential to ensure that this initiative does not promote "green neo-colonialism" and the opening of markets for natural capital in Africa under the guise of conservation and development aid.

---

33 European Parliament, Motion for a resolution on the 15th meeting of the Conference of Parties(COP15) to the Convention on Biological Diversity, [https://www.europarl.europa.eu/doceo/document/B-9-2020-0035\\_EN.html](https://www.europarl.europa.eu/doceo/document/B-9-2020-0035_EN.html)

## ECON AND ENVI COMMITTEE

- 31/12/2021: Delegated acts of the taxonomy relating to the protection and restoration of biodiversity and ecosystems, water quality and “blue carbon” .  
→ Parliament has a veto and 2 months to react.
- End 2020 - European Green Bonds Standard  
The Commission will take a decision at the end of 2020 on how to proceed with the draft standard.  
→ There will be an issue with the standard: do the Greens want to exclude securitisation and derivatives and to exclude transition activities from the taxonomy?
- Ecolabel in PRIIPs and UCITS  
→ It will be essential to ensure that the ecolabel on savings products excludes securitisations and “green” derivatives, and only finances truly green activities.









60 rue Wiertz/Wiertzstraat 60  
1047 Brussels, Belgium  
[www.greens-efa.eu](http://www.greens-efa.eu)  
[contactgreens@ep.europa.eu](mailto:contactgreens@ep.europa.eu)