

# World Forum on Natural Capital

## The great nature sale

November 2013



The first World Forum on Natural Capital in Edinburgh, attended by global corporations, banks, accounting companies and governments, continues a process started in Rio+20 of privatising nature.

At the Rio+20 Conference on Sustainable Development in 2012, rich country governments and corporations tried to capture discussions on a green economy. They proposed bringing nature into the markets in order to protect it (and make a profit). However, in reality this will lead to the commodification and privatisation of nature, taking the control of how it is used and protected away from people and placing it in the hands of corporations and the finance sector.

This could lead for example to selling off land that indigenous people and small-scale farmers have used for generations and creating new financial instruments linked to the survival of endangered species, linking the protection of nature with the health of the financial markets. At a time when we should be reining in the finance sector to prevent further financial crises, these proposals would also help the finance sector penetrate further into our economy, giving it increased power.

### Putting a price on nature

The concept of 'natural capital' that is being pushed at this Forum is based on the idea that we are trashing the global commons because we don't value it properly. Therefore, they say, we need to put a financial value on nature and the

services (clean air, water, resources like trees, food, fuel) it gives us. Then we can bring these things into the market and pay the proper price.

At first glance, this might seem like a good idea. Proponents of natural capital often sound like they are saying all the right things. They appear to accept the need to protect the environment and reduce carbon emissions, and they talk of placing a proper 'value' on nature. But they are confusing value with price, and by doing so they open the door for green markets that price everything but value nothing. The result would be the further privatisation of essential elements of our planet to which we all share rights and have responsibilities.

### **Financialisation of nature**

And it doesn't stop there. Once they are privatised and brought into the market, the life-giving elements that nature provides us would be subjected to financial markets.

The financial crisis of 2007-8 was created in part by the finance sector. It is completely counter-intuitive, but in response to this crisis, as well as bailing out the banks, our governments are enabling the financial sector to penetrate even more deeply into the economy.

To continue this expansion, financial markets need new underlying or real markets. Finance has already penetrated into pensions, health services, education and commodities. Next step: the global commons. Where markets do not yet exist, nature (called by financiers "natural resources" or



Photo: Ian Mackenzie

“ecosystem services”) will have to be traded so that new commodities and markets can emerge.

The financialisation of nature is a big project and its many tentacles have penetrated in different ways. Some of these are discussed below.

The impacts of this will be deep and wide. It will increase economic injustice and further remove people’s control over their food, water, energy and air. It will channel money and resources away from the poorest and into the pockets of the richest. It will put natural resource management into the hands of financial markets for years to come and drastically shrink the political space for social movements reclaiming the commons as the basis of their livelihoods.

## Already commodified: a glimpse into the future?

### **The example of carbon trading**

The theory behind carbon markets is similar to what is being proposed at the World Forum on Natural Capital for ecosystems and biodiversity: that putting a price on negative social and environmental externalities will encourage companies and governments to refrain from harmful activities. But carbon trading schemes, such as the Clean Development Mechanism and the EU Emissions Trading Scheme (ETS), have failed to significantly reduce greenhouse gas emissions.

In the ETS, the cap on emissions was set at such a lenient level that the price of a permit to emit one metric tonne of carbon dioxide fell to under £5 in April 2012. This has meant that companies have had little incentive to reduce emissions at all. Instead, all that has happened is that firms in rich industrialised countries have ‘offset’ their emissions by purchasing cheap credits from developing countries, in some cases through socially harmful projects involving human rights violations and corporate land grabs.

Furthermore, carbon trading has actually served to lock in high emissions activities. The over-allocation of free emissions permits by the EU has allowed high-carbon firms to make large windfall profits from the sale of excess carbon credits, perversely meaning that the ETS is subsidising high carbon industry at the expense of firms which already operated on low emissions.

### **Forest carbon markets**

The harmful effects of the commodification of forests are already being felt by indigenous forest peoples across the world through the REDD+ (Reduction of Emissions Through Deforestation and Forest Degradation) scheme.

The idea behind REDD+ is that if the carbon stored in forests is valued and quantified, forests will be seen as more valuable standing than they would be cut down. Companies will have to earn the right to cut down trees or emit carbon either by planting new trees somewhere else (plantation) or by instituting better forest management in order to cut down on logging.

However, by allowing companies to ‘offset’ deforestation with the creation of new plantations, REDD+ has actually opened the door to the legal destruction of rainforests and the confiscation of land from local people who often do not have formal ownership deeds to the land they have used in common for generations.

This has led to the criminalisation of indigenous communities which stand accused of ‘illegal’ logging for continuing practices they have employed for centuries. In some cases this happens while trees are cut on an industrial scale by logging companies that have purchased the right to do so.<sup>1</sup>

For example, in Uganda over 22,000 people were evicted from their land at gunpoint to allow UK firm New Forest Company to plant trees to earn carbon credits<sup>2</sup>.

*“REDD+ threatens the survival of indigenous peoples and forest-dependent communities and could result in the biggest land grab of all time”.*<sup>3</sup>

Statement by the Global Alliance of Indigenous Peoples and Local Communities against REDD and for Life



**Protestor at the Rio+20 summit in 2012**

### **Ecosystem services and biodiversity banking**

Creating markets in ecosystems and biodiversity are a next step on the route to the total commodification and ‘marketisation’ of nature. The arguments for this are put forward in a report called The Economics of Ecosystems and Biodiversity (TEEB), written by a team led by Pavan Sukhdev, a former banker at Deutsche Bank<sup>4</sup>.

The report argues that in order to protect the natural world we must consider it in financial terms. This means that forests and rivers become ‘natural capital’ and natural processes such as pollination by bees become ‘ecosystem services’ provided by corporation Earth. Of course, in order

to pay for these services there must be a reliable way of quantifying their economic value. To do this, the report advocates the use of a technique called 'benefit transfer' to extrapolate the financial value of a given ecosystem from a database of other ecosystems sharing similar characteristics.

If implemented, these ideas would result in 'biodiversity banks' and speculators trading in financial instruments derived from the artificially assigned value of ecosystems. Nascent markets in biodiversity already exist and a number of 'wetland banks', which trade in the financial value of wetlands as ecosystems, have already been established in the USA.

Biodiversity banking could allow financial speculators to buy derivatives linked to 'biodiversity bonds' that would pay out only if the population of a certain endangered species stays above a defined threshold<sup>5</sup>. In other words, speculators would be betting on the likelihood that a given species will become extinct or not.

### Global water markets

As water is becoming increasingly scarce due to climate change, some business leaders are anticipating that great profits could be made through the establishment of a global financial market in clean water. This could lead, for example, to water speculation, in the same way that we currently have food speculation.

*"I expect to see a globally integrated market for fresh water within 25 to 30 years... Once the spot markets for water are integrated, futures markets and other derivative water-based financial instruments — puts, calls, swaps — both exchange-traded and OTC will follow."*<sup>6</sup>

William Buter, chief economist, Citibank



March against the financialisation of nature at Rio+20



Thanks to campaign actions like this by WDM supporters, Barclays recently announced it had stopped speculating on food commodities.

WDM has previously campaigned against the privatisation of water utility services in the global south. The involvement of private companies from the global north in water distribution has led to sharp rises in household bills in poor countries and little improvement in water access. For example, in Tbilisi, Georgia, the privatisation of the state-owned water company in 2007 resulted in a 262 per cent rise in tariffs between 2007 and 2010.

The impact of speculation on commodity markets has been food price spikes, leading to hunger and malnutrition. Water and people's access to water should not be dependent on the whims of financial markets<sup>7</sup>.

### A true green economy

A true green economy would embrace economic justice - the right of poor communities to determine their own path out of poverty - and an end to harmful policies which put profit before people and the environment. It would reverse the tide of commodification and financialisation, reducing the role of the market and the financial sector. Where markets seek to take power away from the people and distribute resources according to the participants' ability to pay rather than need, a commons-centred approach treats nature, the environment, food, water and other vital aspects of our lives as something we all share rights to and a responsibility for. This is essential to achieve global justice, protect and conserve vital nature and in avoiding another financial crisis.

One aspect of this is the adoption of stronger regulations on both the global and national level and solid legal barriers to activities that cause social and environmental damage. In contrast to failed market-based experiments such as carbon trading, regulation is a proven instrument that can work to

protect the livelihoods of the world's poor and prevent the worst excesses of corporate greed.

Such regulation could include the adoption of new global taxes on the highly polluting aviation and shipping sectors or the adoption of stricter, enforceable international standards on the protection of the environment. It could also mean the introduction of limits to speculation on food and a reversal of the regulatory race to the bottom between poor countries in order to attract foreign investment.

Other positive proposals instead of natural capital accounting are not in short supply and include: sustainable public procurement policies, ecological tax reforms, public investment in sustainable infrastructure— including public transport, renewable energy, or retrofitting of existing infrastructure and buildings for improved energy-efficiency<sup>8</sup>.

But this is only part of the story. The more fundamental principle of a truly green economy relates to the concept of the commons and the idea that there are some things that are too important to be determined solely by the fickle world of markets.

The concepts of food and energy justice are part of the exciting alternative vision of the green economy. In a system of food sovereignty, food is treated as a right, not simply another asset or commodity to be used, traded or speculated on for profit. Food sovereignty is about democratising the food system.

Similarly, energy justice would recognise energy as a human right. Control of energy needs to be returned to users, rather than remote corporations that seek to profit from it regardless of its impact on consumers or how it is generated.

- 1 For more information on how REDD+ allows the industrial logging of primary forests see: Trick or Treat? REDD, Development and Sustainable Forest Management. Global Witness. September 2009.
- 2 Grainger, Matt and Geary, Kate, The New Forests Company and its Uganda Plantations, Oxfam International, <http://www.oxfam.org/en/policy/new-forests-company-and-its-uganda-plantations-oxfam-case-study> 25/04/2012
- 3 Global Forest Coalition. Indigenous Peoples and Allies Call for a Moratorium on REDD+. 06/11/11. Retrieved on 25/04/12 from <http://globalforestcoalition.org/1899-indigenous-peoples-and-allies-call-for-a-moratorium-on-redd-global-alliance-of-indigenous-peoples-and-local-communities-against-redd-and-for-life-forms-in-durban-to-build-grassroots-opposition-to-re>.
- 4 The full text as well as a synthesis report of TEEB findings can be accessed at <http://www.teebweb.org>
- 5 A presentation explaining the principle behind biodiversity bonds is accessible on the following website: [http://www.itre.ncsu.edu/ADC30/10\\_TRB\\_Winter\\_Conference/Presentations/Mandel\\_Advanced\\_Conservation\\_Strategies.pdf](http://www.itre.ncsu.edu/ADC30/10_TRB_Winter_Conference/Presentations/Mandel_Advanced_Conservation_Strategies.pdf)
- 6 Alloway, T. (2011) Willem Buiter thinks water will be bigger than oil. Financial Times Alphaville blog. Retrieved on 25/04/12 from <http://ftalphaville.ft.com/blog/2011/07/21/629881/willem-buiter-thinks-water-will-be-bigger-than-oil/>.
- 7 Civil Georgia website. Tbilisi Doubles Tariffs on Water. 15/01/07. Retrieved on 25/04/12 from <http://www.civil.ge/eng/article.php?id=14449> and Partial Increase of Household Water Tariff in Tbilisi. 24/11/10. Retrieved on 25/04/12 from <http://www.civil.ge/eng/article.php?id=22890>.
- 8 See for example CO-CHAIRS' SUMMARY, First Preparatory Committee Meeting for the UN Conference on Sustainable Development, 2012 . 20 May 2010

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## Take action

To find out how you can help stop climate chaos, and win justice for the world's poor please visit [www.wdm.org.uk/climate](http://www.wdm.org.uk/climate) or call 020 7820 4900



The World Development Movement campaigns against the root causes of poverty. Working in solidarity with activists around the world, we oppose injustice and challenge the policies and institutions which keep people poor.

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