

FINANCIAL MARKETS ON NATURE WILL NOT SAVE BIODIVERSITY

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NGO Green Finance Observatory is publishing today a policy paper on biodiversity, ecosystem services and sustainable finance.

- Recent calls to action to address critical loss of biodiversity are both long overdue and very welcome, but a parallel debate on the 'how' is missing. Yet, the 'how' is arguably as important as the headline objective.

- The 'how' is also in the process of changing drastically, with the promotion of new financial markets on pollution and environmental destruction and the mainstreaming of a new kind of sustainable finance.

- Offset markets on biodiversity and other ecosystem services have been shown to suffer from intractable conceptual issues, including measurement issues, incalculable additionality, highly uncertain valuations and an inexistent price signal. As a result, they will never be able to achieve their environmental and social objectives.

- Empirical evidence also suggests an appalling social and environmental track record for some existing markets. As importantly, the selective pricing of only some ecosystem services and the ignorance of ecosystem interdependencies mean that the resulting values cannot claim to represent biodiversity.

- Biodiversity as an asset class could also create significant moral hazard and financial stability issues by fostering the build-up of unmonitored risks.

- Traditional environmental regulation would be far more effective, simpler and cheaper to address the critical loss of natural resources. They would not require the unrealistic assumptions and oversimplifications needed to create markets on biodiversity, and would accommodate infinitely better the high scientific uncertainty and our incomplete scientific knowledge.

- Traditional binding regulations would also incidentally make all finance sustainable with regards to biodiversity loss, as the risk-adjusted returns of all economic activities and companies would automatically adjust and capital would shift accordingly.

The Green Finance Observatory's director, Frédéric Hache stated: 'while putting a price on nature to save it is a catchy formula, it would therefore seem that regulating nature's destruction would be a far superior alternative. Sustainable finance should not foster the creation of such markets if it is to be truly sustainable.'

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