



GFO'S RESPONSE TO THE INTERNATIONAL ADVISORY PANEL ON BIODIVERSITY CREDITS CALL FOR VIEWS

This call for view is very important, as it will inform the design of a future international biodiversity credit market expected to be launched at COP16 in October 2024. The design of this market will in turn have a significant influence on whether we will successfully address the biodiversity crisis.

It is worth highlighting that biodiversity credits and markets are not a new idea at all, having been promoted for more than a decade by a few economists, lobbies, and institutions.¹ Biodiversity offsetting schemes also already exists in several countries. Academic literature has already amply demonstrated that biodiversity credits and markets are problematic concepts,² as they rely on an alleged monetary valuation of nature using old contested methodologies, as they require a privatisation and reconceptualization of conservation policies into for profit activities and a transfer of sovereignty to financial markets that are incompatible with their public good nature, environmental integrity and with a just transition.³

¹ The Economics of Ecosystems and Biodiversity [https://teebweb.org/publications/teeb/Eftec et al., The use of market-based instruments for biodiversity protection – The case of habitat banking, February 2010](https://teebweb.org/publications/teeb/Eftec%20et%20al.%20The%20use%20of%20market-based%20instruments%20for%20biodiversity%20protection%20-%20The%20case%20of%20habitat%20banking%20-%20February%202010)
http://ec.europa.eu/environment/enveco/pdf/eftec_habitat_technical_report.pdf

² Spash C, Bulldozing biodiversity: The economics of offsets and trading-in Nature, December 2015
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Spash Cilve L., Terrible Economics, Ecosystems and Banking, 2011
https://econpapers.repec.org/article/envjournal/ev20_3aeditev202.htm

³ Hache F, Problematic framing, disingenuous narrative & weak business case outside offsetting – here is our response to Verra's Nature Framework consultation, October 2023 <https://greenfinanceobservatory.org/2023/10/09/privatisation-wealth-sovereignty-transfer-in-the-name-of-conservation-gfos-answer-to-verras-nature-framework-consultation/>

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<https://greenfinanceobservatory.org/wp-content/uploads/2019/05/50-shades-biodiversity-final.pdf>

Biodiversity markets also require a level of standardisation for liquidity purposes that is not compatible with environmental integrity: while it is possible to draw relatively robust equivalences between the six main greenhouse gases and trade a single “CO2 equivalent” asset, it is not possible to simplify millions of species and their complex web of interdependences into a few tradable assets.

The track record of existing schemes and projects is in addition one of significant failure.⁴

We therefore understand the current political momentum for these old debunked ideas to be based on political and economic considerations, namely protecting vested interests and EU’s unsustainable way of life, rather than on scientific considerations and the long-term public interest. In that, biodiversity politics are becoming aligned with climate politics and their unwavering political support for failed carbon offset markets, as a tool to delay domestic climate action and generate new profit opportunities abroad.

As a last general remark, we question the stated goal of developing high integrity biodiversity markets, namely “*generating significant investments in nature conservation and restoration;*” we believe that the goal should be framed in terms of measurable environmental impact, rather than mere quantity of financial flows. We also note that environmental regulation is demonstrably a far more effective policy tool to redirect private capital away from harmful activities and towards conservation and restoration, if this is indeed the goal.

We will only answer the questions that are relevant to us.

1. *What definitions of biodiversity credits and biodiversity credit markets do you find most helpful and why? What role can biodiversity credits (or similar products/models) play in nature conservation and restoration?*

We would find it helpful to acknowledge that biodiversity credits and offsets are one and the same. Biodiversity proponents agree that both are identical but claim that they will have different uses, as credits should not be used for offsetting. Yet, it has been found that biodiversity credits have no credible use at scale other than offsetting.⁵

We note also that the two countries leading this initiative are currently developing biodiversity offsetting schemes at a national level;⁶ this suggests that they will push for international biodiversity credits to be used as offsets, in order to be consistent with their national approaches.

⁴ See references page 10, 50 shades of green part 2: the fallacy of environmental markets

<https://greenfinanceobservatory.org/wp-content/uploads/2019/05/50-shades-biodiversity-final.pdf>

⁵ Hache F, Problematic framing, disingenuous narrative & weak business case outside offsetting – here is our response to Verra’s Nature Framework consultation, October 2023 <https://greenfinanceobservatory.org/2023/10/09/privatisation-wealth-sovereignty-transfer-in-the-name-of-conservation-gfos-answer-to-verras-nature-framework-consultation/>

⁶ “*Pour financer sa préservation, déploiement des contrats biodiversité entre acteurs économiques : Dans le cadre de la loi Industrie verte , des crédits de renaturation, cessibles entre acteurs économiques, pourront être attribués à des sites naturels de compensation, de restauration et de renaturation pour inciter à des engagements volontaires solides et vérifiables” des entreprises, en miroir des crédits carbone attribués au titre du label bas-carbone.*” Gouvernement Français, Stratégie biodiversité nationale 2030, dossier de presse, novembre 2023

https://www.ecologie.gouv.fr/sites/default/files/Dossier-de-presse_SNB2030.pdf

Environment Bank, Biodiversity net gain to be delivered in January 2024,

<https://environmentbank.com/blog/posts/biodiversity-net-gain-to-be-delivered-in-january-2024>

For all the reasons discussed earlier, we find that biodiversity credits and markets cannot play any role in nature conservation and restoration policies and should remain private voluntary initiatives.

3. How can we ensure that the diverse values of nature are captured through a biodiversity credit market approach, and that these are robust, and evidence-based?

It is not possible to ensure that the diverse values of nature are captured through a biodiversity credit market approach; academic research has long demonstrated that the values of nature are multiple and incommensurable, meaning that they cannot be measured on a single scale.⁷

A market approach may for example be considered inadequate to address issues like racial segregation: no matter how much we are willing to pay for segregation, it remains morally reprehensible and arguably our ethical preferences cannot be adequately reflected on a monetary scale.⁸ As Daly and Farley put it, *“putting dollar values on everything does not make the necessary decisions more objective; it simply obscures the ethical decisions required to make those ‘objective’ valuations.”*⁹

We also regret that the question is formulated in such a biased way. Less biased questions would have been “is it possible” and “is it desirable” to capture the diverse values of nature through a market approach. Asking “how can we ensure” implicitly assumes a positive reply to the other two questions, when this has been found to not be the case, and is thus intellectually dishonest in our view.

4. What would motivate you to buy or sell biodiversity credits? Do you have any reservations currently?

As a corporation whose activities destroy biodiversity, e.g. mining, oil and gas, real estate, infrastructure, agribusiness, I would be motivated to buy biodiversity credits to keep my social licence to operate and pre-empt environmental regulations that may curb my activity and profits. My reservations would be the risk that biodiversity credits follow the same fate as carbon neutral claims, that have recently been banned at EU level.¹⁰ See also Delta Airlines’ being hit with a \$1bn lawsuit over carbon neutrality claims.¹¹

As a financial intermediary, I would be motivated to buy and sell biodiversity credits to make trading profits, collect advisory fees and repackage them into “green” retail saving products. My reservations would be the weak environmental integrity and weak conceptual foundations of biodiversity credits that will translate into high price uncertainty and regulatory risk.

⁷ Martinez-Alier et al., 1998; O’Neill, 2001

⁸ *“By no means do we leave everything to the economic calculus and the markets. Our society prohibits child pornography or the sale of votes at election time. It does not apply market mechanisms to the adoption of children or the availability of kidneys. What the market should regulate and what it should not, is a matter on which society must form a will of its own.”* Fatheuer T, New economy of nature – a critical introduction, Heinrich Böll Stiftung, 2014 https://ng.boell.org/sites/default/files/new-economy-of-nature_kommentierbar.pdf

⁹ Herman E. Daly, Joshua Farley, Ecological Economics: Principles and Applications, 2004 <https://islandpress.org/books/ecological-economics-second-edition>

¹⁰ Euractiv, EU reaches deal banning ‘climate-neutral’ product claims, September 2023 <https://www.euractiv.com/section/energy-environment/news/eu-reaches-deal-banning-climate-neutral-product-claims/>

¹¹ The Guardian, Delta Air Lines faces lawsuit over \$1bn carbon neutrality claim, May 2023 <https://www.theguardian.com/environment/2023/may/30/delta-air-lines-lawsuit-carbon-neutrality-aoe>

As the neoliberal government of an industrialised country, I would be motivated to buy biodiversity credits as a path of least political resistance, in order to claim to have achieved my biodiversity commitments, without having had to change my economic model.

5. How can we make sure that Indigenous Peoples and Local Communities (IPLCs) are properly involved in the design and delivery of biodiversity credit markets, and ensure that the market develops in a way that respects cultures, rights over lands, territories, resources, and traditional knowledge?

We cannot make sure that the market develops in a way that respects Indigenous Peoples and Local Communities' cultural and spiritual values, as a monetary approach to nature is often incompatible with their vision of nature.

We note once again the bias in the question; a more neutral and intellectually honest question would have been "is it possible" rather than "how can we make sure."

6. Markets can be voluntary and/or compliance based. Will there be enough demand to support and scale markets on a purely voluntary basis or is regulation/other types of public sector incentive necessary? Are there other ways to conceptualise biodiversity credit markets other than voluntary and/or compliance that we should consider?

The lesson from voluntary carbon markets that voluntary does not generate enough demand to scale is well-known. We therefore find the question "*will there be enough demand to support and scale markets on a purely voluntary basis*" to be biased, aimed at getting support for compliance markets.

Compliance biodiversity markets would be a huge present for project developers, financial intermediaries, and private investors, as demand would be guaranteed by law. However, the intractable environmental integrity issues of biodiversity credits make them unsuitable to being part of conservation policies and to becoming compliance markets.

7. What type of trading should be facilitated (for example over-the-counter, through an exchange, and/or secondary trading) and should it differ in international and domestic settings? Under what conditions and how would the building blocks for international and domestic markets/trading differ? Please express the rationale behind your answer for each sub-question.

Secondary market trading¹² should be banned, since it does not bring any benefits from a conservation perspective, benefiting only speculators and leading to increased price volatility and a weaker price signal.

International trading should also be banned, as it would most likely lead to green neocolonialism, where Global North countries use these markets to avoid curbing their destruction at home. The argument of helping global South countries fund their conservation actions does also not hold, as such market schemes are typically instrumentalised to replace loss and damage negotiations and international grants.

¹² Secondary market trading means allowing biodiversity credits to be bought and sold an unlimited number of times for short term financial gain. For conservation purposes, a credit only needs to be sold / bought once.

9. What lessons can be learned from the carbon markets (positive and negative) that should be applied to the biodiversity credit markets, to ensure their ability to: scale, safeguard their integrity, share benefits equitably, and enable overall positive outcomes for people and planet? Please indicate clearly what you think the three most important lessons are:

The three most important lessons from carbon markets that should be applied to biodiversity credit markets are:

1. Offsets have major environmental integrity and additionality issues, some of which can never be solved; at best, if they worked perfectly, they would merely displace destruction, nor mitigate it, but because of their integrity issues and high failure rate,¹³ they lead in practice to an increase in destruction. These environmental issues will be bigger for biodiversity, due to the higher complexity of ecosystems.
2. Offsetting require tremendous amounts lot of land, creating conflicts over land rights and land-use, competing with agriculture, and creating food safety concerns; it also has a documented history of being often associated with land grabbing, community displacements and human rights abuses.¹⁴
3. Regulation is the only robust and credible policy tool to address the ecological crises, with a track record far superior to market solutions.

11. Should biodiversity credits be based on both conservation (including 'avoided biodiversity loss' to allow for financing of intact ecosystems) and restoration of biodiversity? Should they be classified separately? What is your reasoning?

Biodiversity credits should not be based on avoided biodiversity loss, as history shows that this type of credit has most often serious additionality issues.

12. Should biodiversity credits be based on outcomes (such as increase in tree cover, species populations, or species abundance), or should they be based on specific activities which lead to improved natural system health and biodiversity (such as area of land under conservation/restoration or reduced fertiliser use), or should they be based on both outcomes and

¹³ The Guardian, Revealed: more than 90% of rainforest carbon offsets by biggest certifier are worthless, analysis shows, January 2023 <https://www.theguardian.com/environment/2023/jan/18/revealed-forest-carbon-offsets-biggest-provider-worthless-verra-aoe>

¹⁴ Mongabay, Shell affiliate accused of violating Indigenous rights in carbon credit contracts, November 2023 <https://news.mongabay.com/2023/11/shell-affiliate-accused-of-violating-indigenous-rights-in-carbon-credit-contracts/>

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Jutta, Franchi Giulia, Rio Tinto's biodiversity offset in Madagascar – Double landgrab 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

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International Institute for Environment and Development, 'Land grabbing': is conservation part of the problem or the solution?, September 2013. <https://pubs.iied.org/pdfs/17166IIED.pdf>

Carbon Trade Watch, A tree for a fish, December 2014

http://www.carbontradewatch.org/downloads/publications/CTW_A_Tree_for_a_Fish-EN.pdf

activities? Should they be classified separately? What are the advantages and disadvantages of each approach?

Biodiversity credits should only be based on outcomes, as this is the only relevant metric. We want to emphasize that biodiversity credits differ critically from traditional asset classes, in that they have a policy goal of public interest, justifying a higher standard of expectations.

We also want to highlight that biodiversity credits based on activities instead of outcomes would logically reward failed projects among others, thereby creating a higher reputational risk for buyers.

13. Should biodiversity credits combine various activities or outcomes in a single unit? Should they be integrated with carbon credits/vice versa? Which approach do you prefer and what are the advantages and disadvantages of doing so

Biodiversity credits should not combine various activities or outcomes in a single unit, nor should they be integrated with carbon credits, because such combinations and integrations would greatly complicate due diligence, and reduce transparency and accountability for the various activities and outcomes. In turn, this would get in the way of building market trust and scaling up.

20. What claims should buyers be able to make and what governance structures and bodies would be useful to ensure the legitimacy of the claims? To what extent have these already been defined?

As discussed above, biodiversity markets would lead to a privatisation and reconceptualization of conservation policies into for profit activities that are incompatible with their public good nature. Insofar as they are part of public policies, they would also transfer critical conservation decisions to financial markets, whose choices will most likely not align with ecological priorities. For these reasons, biodiversity markets cannot be compliance markets, nor can they be part of public conservation policies.

The consequence is that buyers should not be able to make any claims, beyond stating that they chose voluntarily to finance some restoration activities out of the goodness of their heart.

21. To what extent are risks (e.g. natural hazards, climate risk, sovereign risk, legal risks) an issue for buyers and what approaches and protections are needed to mitigate those risks if they are an issue (for example, through insurance mechanisms, buffer pools)? What are the best existing practices?

Biodiversity credits are pseudo commodities based on weak theoretical and legal constructs and have no intrinsic value; this creates a high exposure for buyers to regulatory risks and changes in public opinion.

Biodiversity credit buyers are also exposed to new scientific discoveries on ecosystems that would alter our understanding of the role and importance of some species or of the scale and urgency of the biodiversity crisis. In turn, this could lead abrupt changes in prices and changes in market rules.

While some risks can be mitigated, such as natural hazards impacting restoration projects, it is not clear that the two risks described above can.

26. What are the mechanisms needed to ensure that project designs reflect the aspirations of the landholders and IPLCs, address the gap between technical market requirements and local realities, and enable challenges to be identified and addressed including grievances? What best practices currently exist, and which do you prefer?

While an increased concern for IPLCs' values, aspirations and fair treatment seems a positive development, we are concerned that IPLCs are being increasingly perceived by market proponents as the new political prize, whose endorsement would shut down all criticism. We fear that a rush to secure IPLCs endorsement might not necessarily translate into real Free Prior and Informed Consent or fair deals, but instead in boilerplate statements about inclusion that are not enforced in practice.

We also fear that the push to secure IPLCs endorsement might lead to increased tensions and disputes within communities, as promises of future riches are being dangled before them.

We fear as well that the recent push to secure IPLCs endorsement might be linked to the forthcoming change of scale of carbon and nature markets, that will likely translate into much larger attempts at securing IPLC land for offset projects.

Last, we want to highlight that good governance and IPLC participation do not address the intractable environmental integrity issues of biodiversity offsetting.

32. How can biodiversity credit markets be structured to actively incorporate the diverse values of biodiversity and nature to people, especially IPLCs, (including their cultural practices, experience, spirituality and traditional knowledge systems)? What types of information, data, or technical assistance is needed to facilitate and embed their involvement?

As discussed in question 5 above, biodiversity credit markets cannot incorporate all the diverse values of biodiversity and nature, due to the incommensurability of values. Recent attempts at incorporating the cultural values of nature into natural capital accounting frameworks are quite frankly simplistic and laughable, such as European Commission's proposal to measure the cultural value of natural sites in "*number of overnight stays in hotels, hostels, camping grounds etc. that can be attributed to visits to ecosystems.*"

With regards to IPLCs, the culture of many Indigenous and Local Communities rejects the commodification of nature that is at the core of biodiversity markets, and can therefore by definition not be incorporated in them.

The history of carbon offset markets is also one of land-grabbing, forced evictions and human rights abuses of IPLCs, including beatings, torture, rape, and murder. As an example, it was reported that a forestry plantation project managed by a company called Green Resources in the Kachung Central Forest Reserve in Uganda¹⁵ led to access to the plantation being denied to the nearby communities,

¹⁵ The Oakland Institute, *The Darker Side of Green Plantation Forestry and Carbon Violence in Uganda*, November 2014

even though this land was vital for growing food, grazing livestock, and collecting forest resources; when community members tried to go onto the land, they were beaten up by guards. The chemical products used to grow the trees polluted the land and waterways, leading to the death of animals and loss of crops.

In another project in Peru, forest communities' members have been forcefully evicted and seen their homes being cut down with chainsaws and ropes by park guards and police in Alta Mayo National Park,¹⁶ an area that hosts a large carbon offsetting programme, whose credits are sold to compensate for the emissions of activities including cruise ships and theme parks in other countries.

Some carbon offset projects have also been found to create conflicts within communities, when their members received different levels of information, or when only some members were consulted or received compensation. As an example, the decision to participate in carbon markets is still a contentious one within the Yurok tribe in California, as not everyone understood that it would lock their forests as carbon pools for a hundred years, and as some of its people are concerned about the fact that it gives corporate buyers a licence to pollute the air elsewhere.¹⁷

As biodiversity credit markets will increase the search for control over cheap land for conservation or restoration projects, they will likely further increase conflicts over land rights and land-use. It is therefore not clear that merely providing more information or technical assistance to "*people, especially IPLCs*" would "*facilitate and embed their involvement.*"

Conclusion

IAPB co-chair Dame Amelia Fawcett famously stated shortly before the launch of the consultation that "*we have to avoid at all costs perfection being the enemy of the good,*¹⁸" while The Biodiversity Consultancy's strategic director of nature finance, Sam Lacey went during the same interview with "*we probably won't get it right first time, and we have to expect that.*" Such statements managing expectations and anticipating failure say something about the level of ambition and robustness of the market solutions put forward to address the biodiversity crisis. Let us hope that this crucial topic will get the informed public debate that it deserves before these market schemes are put in place.

https://www.oaklandinstitute.org/sites/oaklandinstitute.org/files/Report_DarkerSideofGreen_hirez.pdf

¹⁶ The Guardian, 'Nowhere else to go': forest communities of Alto Mayo, Peru, at centre of offsetting row, January 2023

<https://www.theguardian.com/environment/2023/jan/18/forest-communities-alto-mayo-peru-carbon-offsetting-aoe>

¹⁷ Forest Peoples Programme, Carbon Markets, Forests and Rights: An Introductory Series, September 2023

<https://www.forestpeoples.org/sites/default/files/documents/Carbon%20Markets%20Explainers%20second%20edition%20-%20SINGLE%20PAGE%20DIGITALV2.pdf>

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¹⁸ Carbon Pulse, UK-France biodiversity credit panel to launch consultation next week, November 2023

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