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How Nature-Based Solutions (NBS) could help trigger the Next Financial Crash: The revival of U.S. and international carbon emissions derivatives trading

By Steve Suppan, IATP

Several Parties showed significant enthusiasm for so-called Nature Based Solutions (NBS) that would integrate biodiversity and climate change measures at this week's CBD SBSTTA discussions. Many corporations have embraced NBS as well, seeing it as a key opportunity to become "carbon neutral" by offsetting their greenhouse gas emissions through forest conservation and other biodiversity projects. This calls for a closer look at how corporations are trying to benefit from NBS. One such a NBS is carbon emissions derivatives trading. Indeed, biodiversity offsets have been proposed as an underlying asset for derivatives trading

The U.S. carbon emissions derivatives market has been moribund since the suspension of the Chicago Climate Exchange in 2010 as the price of CO₂ emissions dropped to five cents per ton. However, U.S. state government creation, mostly notably in California, of the underlying assets of derivatives trading—emissions offset credits and emissions permits—kept alive the possibility that one day those credits and permits could be repacked for trading in the futures, options and Over the Counter swaps markets. In 2017, the Institute for Agriculture and Trade Policy (IATP) warned that the announced emissions markets in the states of New York and Virginia would not only fail to reduce greenhouse gases, but would divert resources from successful mitigation initiatives.

To judge by a meeting of the Commodity Futures Trading Commission (CFTC)'s Energy and Environmental Markets Advisory Committee on November 7, it appears that emissions derivatives trading is being revived (the emissions trading portion of this meeting begins at about 1:31 of its archived webcast). According to the first presentation, "market-based solutions have a proven track record and are increasingly the policy tool of choice to solve environmental challenges." In addition to emissions offset credits and emissions permits, presenters discussed the use of other potential underlying assets for derivatives contracts. For example, the U.S. Renewable Fuel Standard, which governs the blending of ethanol in gas and plant-based additives to diesel fuel, could become an underlying asset. CFTC Commissioner Dan Berkovitz asked the presenters to discuss whether and how emissions contract prices might be distorted due to financial speculation. Nobody had a substantive answer.

Coincidentally, also on November 7, the International Emission Trading Association (IETA) announced its priorities for operationalizing global and national emissions trading under Article 6 of the UN Framework Convention on Climate Change. At the UNFCCC Conference of the Parties (CoP) 25 in mid-December in Madrid, IETA will be lobbying to have emission trading transactions accepted as Internationally Transferred Mitigation Outcomes (ITMOs). IETA argues that emission trading will enable UNFCCC Parties to deliver more cheaply their Nationally Determined Contributions to greenhouse gas mitigation.

IETA believes there should be "No share of proceeds and no requisite for overall mitigation in global emissions in relation to Article 6.2 activities, as these concepts do not apply to Article 6.2." Therefore, no part of the proceeds from global emissions trading should be obligated to finance Article 6.2 activities. Nor should global emissions markets be obligated to demonstrate



global mitigation of greenhouse gases. Furthermore, there is to be “No limit to quantity of ITMOs for either buyer or seller” and “No limit to number of transactions and transfers.” In other words, there is to be no limit to the positions of traders to prevent excessive speculation, to use the terms of CFTC regulation, nor any limit to the number of transactions, even if a flash crash of transactions distorts prices.

Who could pass on this deal that IETA's members are offering? NBS legitimates the trading of new and highly speculative financial products. However, there is no evidence trading such contract induces low carbon investment, much climate change mitigation or investing to protect biodiversity. Indeed, IETA's priorities, if realized, could result in financial booms and busts, draining away more direct investments to adapt to climate change and enhance biodiversity.

Real solutions to the climate crisis

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Last July, it was the hottest on record. In 2018, the highest temperature was recorded and the same happened in 2017 and 2016. Surely, next year we will say that 2019 was the hottest which means facing more floods, droughts and hurricanes. Thus, in Costa Rica for example, we continue consuming our daily foods produced many kilometers away: beans from China, onions from Canada, dairy products from the United States, ... when all those foods can be produced in Costa Rica. If we produced our own food, we could maintain some local varieties, the traditional knowledge would still be alive and many people from communities that depend on the production of those foods would still be in their home land.

At the same time, we still put our faith on mechanisms based on the Financialization of Nature to solve the climate crisis: carbon markets, offsetting mechanisms and REDD, among others.

It is madness not to face climate change with real solutions. For example, the scientific literature ratifies something we have been saying for a long time: forests under the management and control of Indigenous Peoples not only have higher rates of biodiversity than those protected under traditional schemes, but also have lower rates of deforestation. Additionally, this type of practices reinforces cultural identity, traditional knowledge, attacks the loss of biodiversity and constitutes a tool that can help to recognize and strengthen the collective rights of Indigenous Peoples and local communities. Something similar can be said about agro-ecology.

REDD and similar types of mechanisms, also hidden in new terms such as “nature based solutions” on the contrary, privatize forests and the functions they perform, they do not stop deforestation or forest degradation and do not address the real causes of biodiversity loss.

Thus, it is important to focus on real solutions, strengthen them and promote them. In addition to community management or governance of forests and agro-ecology, we should change the paradigms of international trade. Thus, we could eat in Costa Rica food produced in our country, avoiding the enormous carbon footprint of those brought from faraway countries.

Climate change and the loss and degradation of biodiversity loss has caused death and pain to the most vulnerable groups of society. Instead of inventing new names for the same false solutions, it is necessary, with seriousness and political will, to generate a real change in the system. Let's leave aside what has proved not to be useful and strengthen work to face the crisis and at the same time implement real solutions.

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