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## Growing speculation: From the appropriation and commodification to the financialization of nature

### **Finan-what?**

The term “financialization” may sound overly complex and academic, or perhaps even made up. It could lead some people to ask, finan-what? However, it is increasingly being used in civil society debates and reflections, particularly with regard to the growing financial speculation tied to the goods and components of nature, including forests, which are of fundamental importance not only for the lives of local communities, but for the entire planet.

Obviously, this is not a new phenomenon. Speculation is inherent to the dominant capitalist economic model and has been around since its inception, as a result of the constant need for the expansion of capital. Through the application of free market policies and privatization, capital has gained ever greater control over natural goods, such as land, oil, energy, minerals and food, as well as expanding to new areas, particularly services that were formerly publicly managed.

This growing appropriation of nature has been facilitated by the intervention of governments, which have established the legal frameworks for the privatization required. They have also enabled the creation of a financial “infrastructure” – the “financial market” – where a series of financial instruments are negotiated, including derivatives markets, investment banks, hedge funds, indexed funds and exchange-traded commodities and others (see the box with definitions).

Within this context, and as a manifestation of the growing accumulation and concentration of capital which periodically leads to market collapse, economic-financial crises have arisen, and are generally “resolved” through the expansion of the investment frontier.

Currently, the financial market has acquired enormous economic weight over the market for trade in real products. Speculation in the currency exchange market, stock market, government bonds, government securities, etc., has reached unprecedented levels. The combined value of two types of financial products – derivatives and conventional financial assets – is now approximately five times greater than the total annual value of goods and services produced (<http://www.ft.org.ar/estrategia/ei1112/finanzas.htm>).

At a time when there is more private wealth than financial assets in which to invest it, the need to create new assets and expand financial speculation has led to speculation in new areas of nature. And while the financial sector grows and grows, production and employment lag behind, salaries are frozen or reduced, and inequality is deepened.

### **Basic definitions to keep from getting lost in the financial market**

Security: A document which can be bought or sold and represents either a shareholder's

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right (stock) or a long-term loan (bond).

Financial instrument: A document that represents a debt or debt security.

Financial products: Financial instruments offered by financial institutions (deposits, current accounts, etc.).

Financial asset (conventional): A security used to channel investment, e.g., stocks, bonds, bank deposits, real estate equities, investment fund shares, etc.

Derivative financial asset: A financial instrument whose price is derived from the price of an underlying asset. The investor bets on a determined evolution of the underlying asset (rise or fall in price) on the stock market. The goal of derivatives is to transfer the risk from underlying assets. The main derivatives markets operate in futures, options and swaps (the exchange of financial instruments).

Investment fund: An institution in which multiple investors participate to invest in different financial assets and instruments.

Hedge fund: A private investment partnership that is open only to a limited number of investors and requires a very large initial minimum investment, also known as an alternative investment fund or high-risk fund.

Index fund: An investment fund that tries to mirror the performance of a specific stock exchange index.

Investment bank: A financial institution that manages the financing of companies and acts to place new issues of stocks and bonds.

## **Some characteristics**

But how is financialization different from the other privatizing assaults of capitalism?

Antonio Tricarico of the Campaign for the Reform of the World Bank has identified a number of characteristics of financialization. He notes, among others, the change that has been taking place in financial systems through which institutions that act as banks have taken on greater importance. While these carry out financial intermediation activities, they are not regulated like conventional banks. Examples are investment banks and hedge funds, which are involved in what is referred to as shadow banking.

Another characteristic is the increase in individual participation in financial operations, through the privatization of pensions, the growing use of credit cards, etc.

Tricarico highlights the dual role played by the state in financialization. On the one hand, it has withdrawn from direct intervention in industrial policies, public banking and service provision, while on the other, it has strongly intervened in supporting the expansion of the financial market by setting monetary policies, lowering taxes, bailing out bankrupt financial institutions, and essentially constructing the “infrastructure” of the financial market on a global scale.

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Financial markets, financial institutions and financial elites have acquired growing influence over economic policies. Because of this, financialization will likely serve in the future to boycott the search for genuine solutions to economic, social and environmental problems, fostering the appropriation of ever more aspects of life and nature, this time on the part of financial agents.

## **The financialization of nature**

When the 2008 financial crisis erupted, leading to an economic crisis, big investors began to look for new ways to invest their millions and reap the huge profits that the prevailing conditions in the 1980s and 1990s allowed them to earn. They saw the growing scarcity of various natural goods as a brilliant business opportunity, and dove into speculation in the food markets, sparking the food crisis of 2008/2009. The resulting exponential increase in basic food prices severely affected the most dispossessed sectors of the most impoverished countries.

But investors, not satisfied with these markets, have been working with national governments and international organizations on the creation of new markets for other aspects of nature. The expansion of the frontiers of financial speculation has led to the commercialization and trading of carbon emissions and the functions provided by ecosystems, under the business category known as “environmental services”. Financial market operators have set their sights on consolidating the carbon market and creating others – for water, biological species, habitats, and biodiversity.

### **Speculating with carbon emissions**

First proposed in the 1960s, pollution trading was developed by U.S. economists, derivatives and commodities traders, “Big Green” Washington environmental groups and business alliances.

In 1997, the Bill Clinton regime successfully pressed for the Kyoto Protocol to become a set of carbon trading instruments (Al Gore, who carried the U.S. ultimatum to Kyoto, later became a carbon market actor himself). In the 2000s, following the U.S.’s about-face on the Protocol, Europe picked up the initiative to become the host of what is today the world’s largest carbon market, the EU Emissions Trading Scheme (EU ETS).

The project of building a single, liquid global carbon market worth trillions of dollars remains the default international approach to the climate crisis. Carbon markets are supposed to distribute government-mandated greenhouse gas pollution reductions where they can be made most cheaply, encouraging swifter global warming action while preserving corporate profits.

As the Chief Executive of American Electric Power stated forthrightly in October 2009, if anyone claims that the “only reason American Electric Power wants to [invest in a forest offset project in Bolivia] is because it doesn’t want to shut down its coal plants, my answer is, ‘You bet, because our coal plants serve our customers very cost-effectively.’”

In Europe, ten industries that are among the most intensive users of fossil fuels are making windfall profits from the huge surplus of pollution permits they have been granted by their governments free of charge – profits that exceed the total EU budget for environment. Carbon markets, as potentially the world’s biggest commodity market in the future, also offer investors a pipeline for absorbing surplus capital. In short, while seeming to respond to public demands for climate action, carbon markets mobilise them in ways that serve elite purposes.

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To meet the profit imperative, the bankers, commodities traders, derivatives traders and neoclassical economists, together with Northern governments, have generally dominated the development of the carbon commodity, and have always focused their ingenuity not on facilitating a transition away from fossil fuels, but rather on making the new commodity liquid, commensurable with other commodities, standardized and able to be traded swiftly across a wide geographical range.

Because all commodities, in order to be exchangeable, must be divisible and measurable, carbon market architects have no choice but to construct their commodity around carbon dioxide molecules. Government departments, scientists on UN panels, and technical experts of all kinds, are delegated to follow and count the molecules as they travel from fossil fuel to smokestack and from tailpipe and atmosphere, thence moving among air, ocean, vegetation, rock, fresh water, and so on. Politicians, diplomats and officials then try to assign responsibility for molecule flows, reductions and savings to various countries or corporate entities.

A problem with the molecule-counting fetish is that it ignores or interferes with the central imperative of dealing with climate change – how to institute structural, long-term change away from fossil fuel dependence. This is simply because the things that encourage that type of change cannot be measured, sliced and diced into a discrete commodities. Molecule-counting treats all carbon-reducing technologies as equivalent, regardless of the degree to which they foster structural change. The focus on topographical location of molecules, in addition, abstracts from the historical, social and economic drivers of climate change, while the focus on chemistry means that the climatic distinction is lost between molecules of fossil origin and molecules of biotic origin.

This growing involvement of the financial sector results in carbon commodities' becoming still more fungible, abstract and divorced from environmental and social considerations, while their simplifications become still more hidden. In 2008, for example, Credit Suisse [an international financial services group based in Switzerland] put together a USD 200 million deal that bundled together offset projects in different stages of completion before slicing them up for sale to speculators. Just as uncertainty commodities concealed from distant buyers and sellers the economic realities bearing on lower-income neighbourhoods in Detroit or Los Angeles, so too financialized carbon-commodity packages, with their even longer value chains, conceal the heterogeneous climatic and social impacts of assemblages of, say, coal-mine methane and biomass projects in China and hydroelectric or pig-farm projects in Ecuador.

The carbon market does not signify a “greening of capitalism” or an accounting reform pushed “from outside” on a reluctant business class, but rather a characteristic (if spectacularly ill-conceived) neoliberal initiative to forge new profit opportunities out of contemporary crises.

Excerpts from: “Mercados de carbono. La neoliberalización del clima”, Larry Lohmann, 2012

For its part, the World Bank has dived into the process of financialization, providing money for projects and schemes that consolidate financial speculation tied to nature. Sian Sullivan of the Third World Network offers the example of a World Bank project in the Democratic Republic of Congo, where World Bank loan funding is being directed to supporting the country to become a provider of

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marketable “environmental services”. This would include supplying forest carbon credits under the REDD+ mechanism or through biodiversity offsets – the demand for which comes in part from the extractive industry and plantation forestry, which are also supported by the World Bank (see <http://documents.worldbank.org/curated/en/2011/06/14597637/congo-republic-forestry-economic-diversification-project>).

While the World Bank, the United Nations (UN) and governments of countries in the North have invested billions in public funds to create the “infrastructure” for REDD to work (laws, regulations, systems to calculate forest stocks, etc.), the predominant view of analysts is that REDD should function as a market and offset mechanism, in other words, like a carbon market, and not with public funds and subsidies.

As a market mechanism, REDD will work if there is enough interest on the part of polluting industries and countries, and if financial market agents are interested in “offsetting” and “negotiating” polluting activities in documents that would prove the storage of carbon in forests and monoculture tree plantations, and even plantations of other crops (encompassed by REDD+ and REDD+ +) in the South.

In financialization, the value of everything traded – whether tangible or intangible, present or future, whether it is a product, a service or the most unimaginable components of nature – is transformed into a financial instrument or a financial derivative.

Economist Willem Buiter of Citigroup, a transnational financial services group based in the U.S., states it very clearly: “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 [...] will follow. There will be different grades and types of fresh water, just the way we have light sweet and heavy sour crude oil today. Water as an asset class will, in my view, become eventually the single most important physical-commodity based asset class, dwarfing oil, copper, agricultural commodities and precious metals” (see <http://ftalphaville.ft.com/blog/2011/07/21/629881/willem-buiter-thinks-water-will-be-bigger-than-oil/>).

The financialization of nature does not merely imply turning new areas of nature and its components into commodities. It also places their management in the hands of financial markets, whose sole concern is to turn a profit by finding ways to invest the enormous sums of private wealth and assets available and to generate new means of accumulating capital.

### **More impacts on communities who depend on forests**

As experience has shown, for communities who depend on forests, the growing expansion of capital has meant destruction and negative impacts on their community life and the forest. This has been the case when big transnational companies buy or acquire concessions over areas of forest to harvest timber, or to build a mega dam, or to establish a monoculture oil palm plantation, or to extract oil or minerals.

With financialization, the problems that arise are similar, but they are manifested with an accelerated intensity. New actors appear who have no obvious presence in the area, which means it is not clear who is behind the processes, but they undoubtedly act in very close coordination with big transnational companies and private and state banks, and with the support of the facilities offered by national governments through the reformulation of national and international legal and regulatory frameworks. At the same time, initiatives for the conservation or protection of nature are also

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captured by the financialization process.

One of the primary requirements of so-called nature “conservation” programmes such as REDD and REDD+ schemes (see <http://www.wrm.org.uy/temas/REDD.html>) is that the communities who live near the area to be “conserved” are not allowed to use it, and often they are even displaced as a result of these initiatives. This constitutes a violation of the right of these communities to exist as such, since it means they are prohibited from maintaining their way of life and making use of the forest as they have traditionally done: they are prohibited from raising subsistence crops, which have traditionally provided them with food, and from sustainably harvesting timber to build their houses and canoes.

## **NO! to REDD**

Many REDD projects are undertaken in forest areas that belong to indigenous and traditional communities. In numerous cases, it has been reported that these communities have not been properly consulted to obtain their consent for these projects in their territories. Their rights over the lands that they have traditionally occupied, as enshrined in the United Nations Declaration on the Rights of Indigenous People (UNDRIP), continue to go unrecognized by national governments. At an Expert Workshop on Climate Change Mitigation with Local Communities and Indigenous Peoples held in Australia this past March, co-organized by the IPCC, it was concluded that while many national and international frameworks governing REDD+ contain safeguards and policies to address indigenous and local communities' rights, there is often little oversight and accountability of these frameworks at the implementation stage.

Although some indigenous organizations have signed agreements and received money to conserve their forests – which is something they have always done – it has become increasingly evident that these initiatives do not always benefit the local communities. These contracts often end up creating internal divisions, which is another result of projects like these which are implemented from the top down and without adequate prior consultation.

All of this explains why indigenous organizations are increasingly opposed to REDD and REDD+. Recently, during the People's Summit at Rio+20, two important declarations supported by indigenous organizations were launched:

- The Kari-Oca 2 Declaration (<http://indigenous4motherearthrioplus20.org/kari-oca-2-declaration/>), so named in reference to the first indigenous peoples' declaration issued in Rio de Janeiro during the 1992 Earth Summit, voices a clear NO! to REDD and REDD+. The declaration states that the “Green Economy” is simply a continuation of colonialism, and that the growing plunder of indigenous lands for the profit-making activities of transnational corporations has led to an increase in violence against indigenous peoples. “Mother Earth”, it stresses, is the source of life and must be protected, not exploited and commodified, as in the case of the carbon market. This is why REDD is viewed as a false solution: because a destructive activity that affects local communities, and especially indigenous communities, is rendered “sustainable” to the extent that it is supposedly “offset” by the purported storage of carbon in certain areas of forest elsewhere. Moreover, REDD violates the rights of indigenous peoples to self-determination and control over their own lands. As such, before REDD or similar projects are considered, it is crucial to recognize the rights of indigenous peoples over their territories, as stipulated in the UNDRIP.

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2. In another declaration (<http://www.redd-monitor.org/2012/06/19/no-redd-in-rio-20-a-declaration-to-decolonize-the-earth-and-the-sky/#po>), the Global Alliance of Indigenous Peoples and Local Communities on Climate Change against REDD and for Life also voiced a clear NO! to REDD and REDD+, analyzing what has occurred in practice and denouncing how REDD is connected to the current process of land grabbing, especially in Africa. The declaration states: “In fact, all the negative impacts of REDD+ that the UN foresaw are already happening. For example, in Africa, REDD+, carbon credits, agrofuels and export crops, are driving huge land grabs. Furthermore, since REDD+ now includes plantations and agriculture, already existing plantations, agrofuels and export crops could soon become carbon offset projects as well. Experts are warning that three-quarters of Africa’s population and two-thirds of its land are at risk and that REDD+ may create ‘generations of landless people.’ In Africa, REDD+ is emerging as a new form of colonialism, economic subjugation and a driver of land grabs so massive that they may constitute a continent grab.”

Some of the information in this section is based on the article “Can REDD ever become green?” by Gleb Raycorodetsky, available at: <http://ourworld.unu.edu/en/can-redd-ever-become-green/>

### **From the value to the price of nature**

A sensitive heart and sensible mind are capable of realizing that value is one thing and price is another: a river, forest and mountain have enormous value, but can you put a price on them?

Some economists have in fact placed a price on what they call “ecosystem services” or environmental services – referring to the functions of ecosystems and related phenomena – through initiatives such as payments for and trade in environmental services. For instance, in the case of forests, their functions in storing carbon, maintaining biodiversity and contributing to the water cycle could be marketed as “environmental services” (see WRM Bulletin 175). The value of these so-called ecosystem services has been estimated at between 16 and 54 billion dollars.

There is a branch of economics – environmental economics – which claims that placing a price on nature will serve to stimulate commercial initiatives and policies that will promote “environmental sustainability”. This approach is the essence of the “green economy” and has gained supporters in high places. One of the pillars of the green economy, which we have addressed in other WRM bulletins (see Bulletins 175 and 176), is the calculation of the economic worth of ecosystem functions within national and international accounting. This is the purpose behind a recent study, “The Economics of Ecosystems and Biodiversity” (TEEB) – commissioned and financed by the United Nations Environment Programme (UNEP), the European Commission, and government ministries in Germany, the United Kingdom, the Netherlands, Norway, Sweden and Japan – which documents the multi-million dollar value of resources like forests, fresh water, soils and coral reefs in the global economy.

The TEEB study was launched in response to a proposal made in 2007 by the G8+5, made up by the Group of Eight industrialized nations (Canada, France, Germany, Italy, Japan, Russia, the United Kingdom and the United States) and five emerging economic powers (Brazil, China, India, Mexico and South Africa). It was led up by Pavan Sukhdev, a senior banker at Deutsche Bank, and provided with close to four million dollars in funding from the European Commission, Germany and Norway. Its recommendations were presented at the 2008 and 2010 meetings of the Conference of the Parties (COPs) to the United Nations Convention on Biological Diversity and have been well received in its

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strategic plan, and are currently being implemented in various contexts.

Along these same lines, the World Business Council for Sustainable Development (WBCSD), an association of international companies, in conjunction with the global professional services firm PricewaterhouseCoopers, the conservation organization IUCN and the Environmental Resources Management (ERM) consulting firm, published the “Guide to Corporate Ecosystem Valuation”, a framework for facilitating better-informed business decisions by explicitly valuing both ecosystem degradation and the benefits of the functions that ecosystems offer.

### **In the framework of the “green economy”**

The concept of a green economy has been promoted by UNEP in response to the severe environmental crisis acknowledged by the world’s governments at the 1992 Earth Summit.

The 1992 summit gave rise to the concept of “sustainable development”, which has now been expanded to open the way to the “green economy”. What both approaches share in common is the insistence that it is possible, through a few adjustments, to maintain the same systems of production, trade, finance and consumption and at the same time to “improve human well-being and social equity, while significantly reducing environmental risks and ecological scarcities.” But neither addresses the root of the problem: the capitalist system and its logic of unlimited growth at the cost of exploitation, extinction and exclusion.

The change was that capitalism dressed up in green: new businesses emerged, labelled as “bio”, “eco”, “green”, “sustainable”. Corporations began to talk about “social responsibility” and took pains to present themselves as “environmentally responsible”, using devices like the “offsetting” of emissions. In this case, the cost of preserving nature in one area – for example, conserving the carbon in a forest – would be paid for with a polluting and/or destructive activity, through some type of market (for carbon or biodiversity). In other words, while one area is preserved, another area or environment is being destroyed and local communities are usually being expelled and seriously affected. What’s more, a perverse situation is created in which environmental destruction ensures a high market value for conservation, which means environmental degradation is necessary to sustain the market demand for this conservation mechanism. And a higher degree of destruction could result in higher profits.

In the meantime, commercial activities around conservation require placing a price on it. In turn, the monetary value or price assigned to areas where nature is maintained intact leads to land grabbing by governments and investors, with serious impacts on communities. Typically, they are displaced from their territories, and their knowledge, practices and cultural values – which have traditionally contributed to biodiversity – end up being lost not only in the present but also as a valid option for the future.

The green economy, therefore, constitutes a new capitalist strategy involving the redirecting of investments towards nature, which is transformed into “natural capital”, with markets created and prices established around it. Pollution and conservation serve as the basis for new business activities; new supposedly “clean” technologies like agrofuels are promoted, but implemented under the same intensive, large-scale model that implies more land grabbing and social and environmental impacts; new markets are created around nature, such as the “carbon emissions market”, which forms part of the financial markets; and a leading role is given to corporations.

Thus financialization forms part of the green economy and complements it perfectly, because both



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concepts aim in the same direction: commodification and speculation around all aspects of life. It is an intolerable approach for those of us who are struggling to stop the destruction of forests and other important natural areas around the world, which do not have a price, but do have enormous value for local communities and humanity as a whole.

## **Confronting financialization**

At a time when humanity, with its predominant capitalist model of civilization, is facing a crossroads, a change in direction is needed, and it is crucial for states and governments to redefine their function and their commitment to the peoples. Today, when policies are generally aimed at the use of public funds to support major projects – which benefit big corporations and banks – and to “bail out” the financial speculators who have caused the current crises, the “solution” promoted is that of perverse mechanisms like the trade in environmental services, which deepen the commodification and financialization of nature.

This is unacceptable. It is time for the peoples’ money to be channelled through public policies that support communities who genuinely pursue the conservation and recovery of their forests and territories, and peasant communities who practice forms of agriculture that have enabled coexistence and interaction with the forests.

At the same time, social movements are working to build broad alliances among those who fight against the international financial system, those who struggle against the privatization of nature, and those who fight every day for their territories and ecosystems. In Cochabamba, at the first Peoples’ Summit, a popular alliance of non-governmental organizations and networks and social movements was forged to search for its own agenda. At Rio+20 the process continued and resulted in a common stance of opposition to the “green economy”, with a collective agenda. This process needs to be strengthened in order to effectively fight the big corporations and financial institutions responsible for the financialization of nature and of life in general.

Today it is essential, to begin with, for civil society movements and organizations to demand information and transparency on the financialization processes that are rapidly advancing in the countries of the South, and, above all, on the role of governments which, without consulting anyone, propose and approve laws and decrees, often contrary to their own constitutions and to international agreements, to facilitate the appropriation of land and nature by financial capital groups.

And we must all work together to strengthen the debate, putting the “technical” and seemingly “complex” aspects of financialization into the plainest language possible. The more people there are who are aware of the issue and understand its perversity and its impact on the lives of communities who depend on forests, or on nature in general, and on all peoples in the long run, the more possibilities there will be to build the solid front needed to combat this trend.

## **Nature is not for sale. It is priceless, and it must be defended.**

This article is based on knowledge and reflections on the subject of the financialization of nature contributed by various authors through their work, especially Antonio Tricarico, of the Campaign for the Reform of the World Bank (Italy), atricarico@crbm.org, in “The ‘financial enclosure’ of the commons”, October 2011, [http://www.un-ngls.org/gsp/docs/Financialisation\\_natural\\_resources\\_draft\\_2.pdf](http://www.un-ngls.org/gsp/docs/Financialisation_natural_resources_draft_2.pdf), and his presentation “Financialisation and nature”, at “Financialization of Nature: A Roundtable Discussion”, organized by the Institute for Policy Studies in April 2012, available at Sian Sullivan, Third World Network, in

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“Financialisation, Biodiversity Conservation and Equity: Some Currents and Concerns”, 2012, <http://www.twinside.org.sg/title/end/pdf/end16.pdf>; and Larry Lohmann, in “Mercados de carbono. La neoliberalización del clima”, 2012, [http://wrm.org.uy/temas/REDD/mercados\\_de\\_carbono.pdf](http://wrm.org.uy/temas/REDD/mercados_de_carbono.pdf)