

Nature-based solutions - cost-effective and credible?

Blog post by Associate Charley Roberts, 20 November 2020

Not all solutions for mitigation and adaptation to climate change are technological. So-called 'nature-based' solutions are rapidly increasing in prominence, successfully breaking through conservation circles to mainstream policy since the 2019 Madrid UN climate conference.

Tree planting, soil carbon sequestration and mangrove restoration are three examples gaining attention from policymakers and corporates. Investor interest is also rising given these ideas are potentially more cost-effective than high cost technologies, while the carbon credits produced could create a new kind of trading market. Alongside this growing interest, however, there is continuing concern around 'greenwashing'.

The Nature Conservancy estimates that the carbon drawdown potential of such projects could cut 11bn gigatons of CO₂ equivalent a year - up to 33% of required global emissions reductions under the Paris Agreement. This suggests nature-based solutions could be a major source of carbon credits in the future, with the UN's Principles for Responsible Investment estimating nature-based offsets markets could reach over \$1.2 trillion in value by 2050. Whether this becomes a reality will rest in part on what is agreed over the coming year under Article 6 of the Paris Agreement on international market mechanisms.

Discussions on Article 6 failed to reach a resolution at COP25 in Madrid, and are now a keenly anticipated agenda item for COP26. One key point to be agreed is how double-counting of emissions reductions can be avoided. A problem arises when both the country that generates credits and the country that purchases them count them towards their national targets. Another important question is whether to carry over billions of carbon offsets created under the Kyoto Protocol.

Some environmental groups have previously called for offsets to be kept out of the formal guidelines for implementing the Paris Agreement, out of concern that granting credits to carbon offsetting projects like nature restoration allows polluters to avoid cutting their own emissions.

The Article 6 outcome will affect how corporates and investors engage with nature-based solutions in important ways. Firstly, the increased interest in such solutions is largely related to the ability to invest in them to reduce overall emissions in a company or fund's portfolio. The rules that govern how reduced emissions are accounted for globally should create greater competition among corporates, but may also raise tensions with governments on who gets to take the credits. Secondly, most of the potential for large scale nature-based solutions is in the global South, where access to finance is most limited and will likely require cooperative investment models.

Future events such as the UN Biodiversity Conference in China in 2021 and initiatives like the Task Force for Scaling Up Voluntary Carbon Markets - led by Mark Carney, the United Nations special envoy for climate action and finance - will continue to build interest and engagement on nature-based solutions. If the rules are set correctly, that interest could result in highly credible low-cost

emissions reductions, a market that satisfies investor and corporate appetite and facilitates global collaboration. Nature may have ready-made solutions, but we must wait to see how policymakers decide to harness them.