



October 20, 2010

# Global Economy Must Tally Environmental Costs -- Report

By LAURA PETERSEN of

The price tag for corn is easy to grasp, but what about the price of pollination?

The value a healthy environment provides is invisible in the global economy, leading to ecosystem degradation and species loss, according to the Economics of Ecosystems and Biodiversity (TEEB) study released today. For example, bees and other insects jumping from flower to flower provide an essential service for crop production, valued at a whopping \$200 billion.

"Not a single bee has ever sent you an invoice," said Pavan Sukhdev, leader of the study. "And that is part of the problem, because most of what comes to us from nature is free, because it is not invoiced, because it is not priced, because it is not traded in markets, we tend to ignore it."

The "broken" financial system must be reformed so that the environment and the valuable services it provides are incorporated into every decision and transaction, the report concludes. That is vital not only for slowing environmental destruction and species loss, but for modern economies to flourish, Sukhdev said.

The TEEB report was commissioned in 2007 by the Group of Eight countries, plus five emerging economies. It was released during the U.N. Convention on Biological Diversity in Japan.

While most cost-benefit analyses look at natural resources that can be extracted, such as gold, timber and food, those products only account for one-third of the total economic value provided by the environment, the report said. Other "ecosystem services," such as pollination, forests filtering drinking water and wetlands providing flood protection, make up the other two-thirds.

Currently, businesses do not pay for the loss of services caused by production or development. Estimated at \$2.2 trillion annually for the top 3,000 listed companies, those costs are passed onto society, or externalized.

"We are at a stage now where the rate of loss of ecosystem services and the rate of loss of biodiversity is so severe we cannot treat them as mere externalities of economics," said Sukhdev, who is on sabbatical from Deutsche Bank while working for the U.N. Environment Programme on green economics initiatives.

To slow the alarming rates of biodiversity loss, environmentalists need not pull on the public's heart strings with images of cute baby polar bears, the study said. They need to lay out the cold, hard impacts on the bottom line.

To internalize environmental values and costs, the TEEB report recommends implementing a variety of financial tools, such as charging for services, creating environmentally friendly markets with eco-labeling and providing financial incentives and subsidies for environmentally friendly businesses.

Normal business practices should report negative environmental externalities and offset their impacts so they have a net zero impact, or even a net positive impact, the report said. And subsidies for industries harming the environment, such as fossil fuels, should be phased out.

Environmental protection can also save money, according to the TEEB report. For example, New York saved more than \$6 billion by paying farmers about \$1 billion to change management of runoff to reduce the water pollution, rather than build a \$6 billion to \$8 billion wastewater treatment plant that would have cost between \$300 million and \$500 million a year to operate.

But convincing board rooms and consumers across the globe to start paying for things that have been free in the past is not going to be easy. Sukhdev said it is not going to happen overnight -- new, emerging models will begin to compete with old, lingering ones.

"It could happen, but not in today's environment," said Patrick Michaels, a senior fellow in environmental studies at the Cato Institute, a free-market think tank. "Right now, people -- and it's not just the U.S. -- people are worried about economic contractions more than they are about environmental protection."

Dominic Waughray, the senior director of environmental initiatives at World Economic Forum, estimates it will take 20 years, but environmental externalities will eventually be internalized into a new economic model. The biggest challenge will be changing the mindset of politicians and consumers, since many investors are already beginning to look at environmental risks and costs, such as carbon and water scarcity, Waughray said.

"It could be a very academic, technical debate within the high-level United Nations circuitry, or it could play out quite quickly and practically among investor networks because of the real challenge of the resource scarcity that companies and others are facing," Waughray said. "I suspect it will be a mixture, but I think it will be the second issue that will really drive this."

The report was released at the Convention on Biological Diversity in Nagoya, Japan, which is bringing together almost 200 countries to discuss targets to slow the rate of biodiversity loss by 2020, some of which mirror recommendations of the TEEB report. Species are disappearing 1,000 times faster than historic rates, on par with extinction of the dinosaurs.

"We expect the TEEB study will deliver significant impacts on global biodiversity policy," Hideki Minamikawa, Japan's vice minister for global environmental affairs, said in a statement.

The Nature Conservancy, one of many environmental organizations sounding the alarm about biodiversity loss for years, welcomed the framing of its fight in a new light. The nonprofit pledged to work to implement some of the recommendation of the report.

"We've spent decades talking about habitat degradation and species loss," said Andrew Deutz, the group's director of international government relations, in a statement. "The people who run the world talk in terms of economic growth and employment rates. This report could be our Rosetta stone."

**Click here** to read the study.

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