Delivering a Sea-Change: A G7 Ocean Finance Deal

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Great Barrier Reef

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Ocean Risk and Resilience Action Alliance

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We commit to aligning all financial flows with biodiversity objectives, including identifying, redirecting or eliminating subsidies harmful to biodiversity and call on all countries and financial institutions, in particular Multilateral Development Banks, to do the same. We are committed to mobilizing resources, from all sources, to substantially increase our funding in support of biodiversity finance by 2025, including increased funding for Nature-based Solutions with strong environmental and social safeguards, and ensure our economic and financial decision-making is aligned with sustainability objectives.

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Section II. a)

Delivering a Sea-Change: A G7 Ocean Finance Deal

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Cover image
Great Barrier Reef
The Worlds largest tropical coral reef system. The reef stretches more than 2,000 kilometres (1,240 miles) along the coast of Queensland, Australia. It supports astoundingly complex and diverse communities of marine life and is the largest structure on the planet built by living organisms.

1. INTRODUCTION

Marine biodiversity is exposed to multiple stressors including overexploitation, pollution, and climate change, as described in the recent IPCC reports on the Ocean and Cryosphere in a Changing Climate[1] as well as the February Sixth Assessment Report on Impact, Adaptation, and Vulnerability[2]. Several efforts are underway at the United Nations to improve and expand ocean governance, including ongoing negotiations towards a United Nations Agreement on Biodiversity Beyond National Jurisdiction, efforts to put in place a plastics treaty, and at the World Trade Organisation, to end harmful fishing subsidies. Achieving goal 14 of the United Nations Sustainable Development Goals (SDG 14): "Life below Water", will be addressed at the UN Ocean Conference in June 2022, yet less than one per cent of climate finance is currently invested into ocean and coastal natural capital and SDG 14 receives the least funding of any of the Sustainable Development Goals.

The German G7 presidency has proposed a G7 "Ocean Deal" in order to forge ahead with joint initiatives for ocean conservation and against marine pollution[3]. The recent 'back to blue initiative' report entitled "Marine Chemical Pollution the Invisible Wave"[4] outlines the severity of the threats to the marine environment and comes on the heels of new research confirming that the focus on the development of the 'blue economy', or 'blue acceleration' is skewed and inequitable[5], and that we are breaching planetary boundaries also by introducing novel entities into the environment, including into the ocean[6].

To tackle these challenges and achieve many of the goals they are designed to address, an ocean finance package is a critical element of the G7 Ocean deal. Without it, achieving SDG 14's targets or meeting the challenges being faced by the ocean from a changing climate, will be unattainable.

The opportunity to drive a sea-change in investment into ocean and coastal communities and ecosystems is clear. Building the resilience of exposed and climate vulnerable coastal communities, regenerating marine biodiversity and addressing the ocean pollution crises, requires a step-change in our ambition and focus, shifting the amount of investment from the millions to the billions and trillions. Or we can prepare to bear the untold costs – and risks – of inaction. The guiding principles for what we need to do are clear: to achieve the scale required, we need to integrate ocean and coastal risk and resilience as a core element of climate adaptation finance, invest in outcomes that are nature-positive, and accelerate the achievement of the 1.5°C target while building ecological resilience, adaptive capacity, and abundance. Finally, we need to deliver the social, economic, and cultural resilience of the billions of people that depend on marine and coastal ecosystems for livelihoods and their way of life.

As was outlined in a recent T7 policy brief[7], a G7 Ocean Deal should include provisions for 1) ambitious ocean governance and political change to safeguard ocean health, 2) improving ocean observation, data infrastructure and knowledge sharing, and 3) financing the transition towards more sustainable interactions with the ocean. At the One Ocean Summit in Brest in February 2022, global leaders put forth first commitments to make 2022 a decision year for the ocean and tackle a set of priority areas. This was followed by the US$16 billion of commitments made at the Our Ocean Conference in Palau in April[8]. The CBD Post-2020 Global Biodiversity Framework can further integrate the ocean-climate-biodiversity nexus.

This paper suggests that to address the ocean challenges at scale, public and private finance institutions need to be fully engaged to play a critical role in helping to implement effective and sustainable ocean solutions and to put in place the required global ocean finance architecture that today does not exist.

A G7 finance ministers and central bank governors' communique of 5 June 2021 proposes to ensure a "transformative effort to tackle climate change and biodiversity loss". This language now needs to be implemented by G7 Leaders through an enhanced financial commitment and it cannot forget the Ocean – Earth's largest biosphere and carbon sink.

1. https://www.ipcc.ch/srocc/
2. https://www.ipcc.ch/report/ar6/wg2/
3. https://www.bmwi.de/Redaktion/EN/Pressemitteilugen/2022/20220121-climate-action-and-environmental-sustaiability-federal-government-publishes-2022-g7-presidency-programme.html
4. https://backtoblueinitiative.com/marine-chemical-pollution-the-invisible-wave/
5. https://oceanrisk.earth
6. Persson, L et al (2022) Outside the Safe Operating Space of the Planetary Boundary for Novel Entities. Environ. Sci. Technol. 56, 1510−1521
7. Schoderer M et al. (2022) SAFEGUARDING THE BLUE PLANET – THREE RECOMMENDATIONS TO SUSTAINABLY USE AND GOVERN THE OCEAN AND ITS RESOURCES T7 Task Force Climate and Environment POLICY BRIEF
8. https://ourocean2022.pw/commitments/

2. MARINE BIODIVERSITY AT THE NEXUS OF CLIMATE MITIGATION: OCEAN RISK AND RESILIENCE

The ocean regulates the climate, is a gigantic biodiversity reservoir and absorbs around 30% of the world's total carbon emissions, causing it to warm up and acidify with significant negative impacts on marine life. It has absorbed over 93% of the enhanced heating from global emissions. Without the ocean absorbing heat and CO2, the CO2 content of the atmosphere would have already exceeded 500 ppm by far and temperatures on land would be over 30 degrees Celsius warmer than they already are. Extensive overfishing and destructive fishing, as well as pollution from land-based sources such as plastics and nutrient run-off from agriculture are risk multipliers enhancing the vulnerability and exposure of this critical Earth system to emerging climate change-driven hazards.

Coastal communities in developing countries, Small Island Developing States (SIDS) and other low-lying areas are the most threatened, with women and girls often on the front line of this change.[9] Sea level and population density projections indicate that 800 million people will be at risk of coastal flooding and storm surges by 2050, and over 570 low-lying coastal cities will face a sea level rise of at least 0.5 metres. Coastal floods and storm surges currently cost the world between US$10 billion and US$40 billion a year.[10] Floods will cost coastal cities US$1 trillion a year by 2050, with billions of dollars worth of infrastructure at risk[11].

Ocean changes will worsen considerably if global temperatures exceed 1.5°C above pre-industrial levels. Loss of fishery productivity at low latitudes, acidification, dead zones, and other dangerous conditions will be more pronounced. This will affect the livelihoods of the 10-12% of the world's population that depend on fisheries and aquaculture[12] and over 3 billion people worldwide relying on food from the ocean as a significant source of animal protein.[13]

The Summary for Policymakers of the IPCC's Sixth Assessment Report[14] recognizes the interdependence of climate, ecosystems and biodiversity, and human societies. It highlights adaptation solutions which are effective, feasible, and conform to principles of justice, and it states that enhanced mobilization of and access to financial resources are essential for implementation.

The report makes clear that the ocean has bought us time. However, the ocean remains critically under-observed and accounted for, making the climate future uncertain. Now it is up to us to invest wisely into ocean observation, protection, and resilience, including through 100% sustainable ocean plans.[15]

Coastal ecosystems, such as coral reefs, salt marshes and mangroves, are critical natural assets that can reduce disaster impacts. Mangrove forests provide more than US$80 billion per year in avoided losses from coastal flooding and protect more than 15 million people. Coral reefs can reduce coastal flooding and erosion by dissipating as much as 97% per cent of wave energy, and the annual expected damages from storms by more than US$4 billion.[16]

The world must transition to a more resilient investment model that protects marine life, secures the future well-being of coastal communities, reduces the risk of falling portfolio values and stranded assets, and achieves sustainable and long-term returns for those prepared to invest in the ocean's natural assets.

9. C40 Cities. Staying Afloat: The Urban Response to Sea Level Rise.
10. Association of British Insurance. Financial Risk of Climate Change.
11. Global Commission on Adaptation. Adapt now: A Global Call for Leadership on Climate Resilience.
12. Food and Agriculture Organization of the United Nations (FAO). The State of World Fisheries and Aquaculture 2014.
13. Potts, J., Wilkings, A., Lynch, M., & McFatridge, S. State of Sustainability Initiatives. Standards and the Blue Economy.
14. https://report.ipcc.ch/ar6wg2/pdf/IPCC_AR6_WGII_SummaryForPolicymakers.pdf
15. https://oceanpanel.org
16. https://www.weforum.org/agenda/2020/11/solutions-to-climate-change-in-the-ocean/

3. PRESERVING AND RESTORING BLUE NATURAL CAPITAL

Blue natural capital, ranges from the wealth contained in the corals, mangroves, and seagrasses of coastal ecosystems to the incredible, and oftentimes yet-to-be discovered life in the deep-sea. These highly diverse and productive habitats are at serious risk, putting entire economies in peril. Their protection, through nature-based solutions can deliver multiple benefits to people and nature.

Major ocean tipping points, such as changes in ocean circulation as a result of melting ice and slowing of the Gulf Stream, will have system-wide effects, including to the oceanic micro-biome and to phytoplankton, key to carbon cycling and thus climate regulation. Eutrophication caused by run-off, pollution and deoxygenation contribute to the creation of marine dead zones, undermining fish stocks, ocean, and human health today and limiting the options for a sustainable future blue bioeconomy.

The Dasgupta Report[17] identified natural capital as a critical asset and contains recommendations that focus on transparency in production chains, accurate measurement of the direct and indirect costs of degradation, and increased funding to protect and restore biodiversity.

Building resilient coastal natural infrastructure requires funding from a combination of sources, including private investors, governments, philanthropic funders, and development finance providers. Yet perceptions of risks, underdeveloped finance vehicles and the lack of a pipeline of products have restricted significant investment. Investments to protect blue natural capital and to build resilience in vulnerable communities are small - despite the interconnectedness between a stable climate, a biodiversity-rich and healthy Ocean, and a resilient future.

Only 3-8% of climate finance is finding its way into nature[18], and by 2030, the total biodiversity financing gap could reach US$600-800billion per annum.[19] The financing gap is even more pronounced for the Ocean.

Less than US$13billion has been invested in sustainable projects, with minimal private sector financing.[20] In order to build resilience and enable adaptation, it is vital to attract greater private investment, including through the expansion of insurance coverage and the development of blended finance tools. This requires also that public finance kick-starts the investment opportunity. Private capital is available if resilience investments can generate acceptable risk-adjusted returns. However, current barriers to private investment in natural capital include a lack of understanding of how investing in natural capital can provide a timely and productive return; a limited pipeline of risk-adjusted investable projects to attract financing; insufficient data and modelling capabilities for investors to quantify ocean-derived risk and inadequate enabling policies to shift investment away from unsustainable infrastructure.

There is a clear opportunity to break down these barriers. Now is the time to create the investment-friendly structures and financial products that bring together public and private capital to protect the Ocean and build resilience in coastal communities and blue nature.

17. The Economics of Biodiversity: The Dasgupta Review", February 2021
18. Almond, A., Nature4Climate. What's Ahead for Nature-based Solutions?
19. Deutz, A., et al. . 2020. Financing Nature: Closing the global biodiversity financing gap.
20. Sumaila, U.R., et al. 2020. Ocean Finance: Financing the Transition to a Sustainable Ocean Economy. WRI: Washington, DC.

4. THE OPPORTUNITY FOR BLUE FINANCE AND A SUSTAINABLE OCEAN ECONOMY

Ocean finance can and must play a vital role in supporting the sustainable development of the ocean economy by directing investments to activities, policies and actions that minimize ocean risks and maximize social equity and environmental sustainability.[21] Yet to date, financing for sustainable ocean action is limited, dispersed[22] and dwarfed by historic funding of unsustainable ocean activities[23], including overfishing. According to the Insurance Development Forum, about 70% of natural catastrophe losses worldwide are uninsured leaving, in particular, poor coastal communities in the Global South to fend for themselves in the case of disaster.

The funding of projects and activities to conserve and restore marine areas is complex. The sea is a public good, so the involvement of public authorities is a necessary component. Blue finance must be linked to a dynamic as well as sustainable and equitable blue economy. The conservation and restoration of coastal and marine nature must also generate sustainable livelihoods to compensate for the inevitable job losses linked to stopping overfishing, polluting activities, and the exploitation of the seabed. Opportunities for job creation include areas like waste management and recycling, efficient and less destructive resource exploitation (e.g.: algae farming or one-by-one fishing techniques), green/blue infrastructure projects rehabilitating coastal wetlands, establishing, and properly implementing marine protected areas, installing off-shore wind and tidal energy, green shipping, and responsible tourism.

To guarantee the environmental, social, and financial security of such complex projects, it is critical to build private-public partnerships that also involve NGOs and scientists. Finally, there is a need to finance small and highly localised projects which may not be viewed as bankable by the traditional private financial sector; but that clustered together, for instance by a public development bank, would make access to private funding easier. Risk reduction products could also be pooled for the same reason.

As last year's T20 policy brief[24] put it: the ocean is the Earth's largest productive asset for which there is no adequate accounting, with the need to deliver the restoration of marine ecosystems and ecosystem services requiring integrated approaches to valuation, which can draw on the System of Environmental-Economic Accounting – Ecosystem Accounting, adopted by the UN Statistical Commission. Furthermore, to attract large-scale investments, it is critical to find ways to de-risk ocean-based sustainable projects and activities.

We propose four critical points for building out a G7 ocean finance plan.

21. Sumaila, UR et al (2021) Financing a sustainable ocean economy. Nature Comms
22. Vierros, M., Balgos, M. et al. (2021) Assessing Progress on Ocean and Climate Action: A Report of the Roadmap to Oceans and Climate Action (ROCA) Initiative.
23. Laffoley et al. 2021, The forgotten ocean: Why COP26 must call for vastly greater ambition and urgency to address ocean change. Aquatic Conservation: Marine and Freshwater Ecosystems.
24. De Noon et al (2021) Fixing Financial, Economic and Governance Structures to Save Forests and the Ocean and Enhance Their Contributions to Climate Change Solutions. T20 Policy Brief

5. ACTING FOR THE OCEAN – A FOUR-POINT OCEAN FINANCE PLAN:

5.1 Reporting, disclosure, and Exclusion

The financial sector is increasingly applying ESG (Environmental, Social and Governance) objectives to help address the biodiversity crisis and protect nature. Improved reporting and disclosure, helped by emerging taxonomies can support decision-making all the way from review to potential limitations or even exclusions of activities (such as offshore oil and gas production and seabed mining) that are not aligned with sustainability.[25] Voluntary and mandatory climate disclosures, commitments and impact reporting will need to be integrated into and implemented throughout the financial system, across all private finance sectors.[26]

The development of the Taskforce on Nature-related Financial Disclosures (TNFD) is very positive, and a step forward, as is the growing number of public and private sector commitments to achieve net zero. Protection and restoration of Nature-based solutions must play an important role in this and needs the required focus. The full integration of the Ocean, the largest and most complex ecosystem on the planet, must constitute an integral element of the disclosure framework being developed.[27]

G7 central banks are rightly focusing on assessing the financial stability risks posed by climate change and on the development of key scenarios. The language of risks and potential tipping points can help to bring the interactions between nature and the financial system to the fore and overcome the short-term bias of financial markets. Physical risks to ecosystems and projects are enhanced by transition and liability risk for industries that, when impacts are fully considered, will no longer be able to operate with social licence. Financiers need appropriate screening tools for nature risks, full due diligence along supply chains and adequate disclosure based on a comprehensive taxonomy that reflects impact metrics.

We need to apply agreed guardrails and safeguards that ensure the sustainable use and protection of marine and coastal resources progressively, consistently, and globally, and include environmental and social considerations, as the work of the Platform on Sustainable Finance of the EU taxonomy have shown.[28] We also recommend the integration of ocean-related metrics into the outcomes of the TNFD and the alignment of TNFD to the Taskforce on Climate-related financial disclosure. This requires support for the development of globally agreed national and international ocean-related metrics and subsequently the alignment and the integration of these into the outcomes of TNFD.

5.2 Principles and Standards for a Sustainable Ocean Economy

Common standards and agreed principles and impact frameworks that are aligned to the ambition of the International Sustainability Standards Board (ISSB) will be key to facilitate investment in the ocean space. An example of these is the Sustainable Blue Economy Financing Principles hosted by the United Nations Environment Programme's Finance Initiative (UNEP-FI).[29] In addition, we need agreed quality standards and verification processes for sustainable "blue" products, from loans to bonds to credits.

The newly mandated Ocean and Climate Change Dialogue, to be held annually under the UNFCCC's SBSTA, can serve as a tool to close the knowledge gaps and boost ocean-climate action. It should explore options to further increase public funding and private investment for ocean-based climate action, including by developing innovative tools, approaches, and partnerships. It should also help to improve access to finance for the most vulnerable communities, including Small Island Developing States and coastal Least Developed Countries.[30]

25. CP Novethic (2021) "Une centaine de fonds durables appliquent des exclusions liées à la biodiversité"
26. Pons, J-F (2022) BIODIVERSITY: A NEW CHALLENGE FOR SUSTAINABLE FINANCE
27. https://tnfd.global/publication/nature-related-risk-beta-framework-v01/
28. https://ec.europa.eu/info/sites/default/files/business_economy_euro banking_and_finance/documents/220330-sustainable-finance-platform -finance-report-remaining-environmental-objectives-taxonomy_en.pdf
29. https://www.unepfi.org/blue-finance/the-principles/
30 CONTRIBUTION TO THE 2022 OCEAN AND CLIMATE CHANGE (SBSTA 56) Submitted by the Ocean & Climate Platform

5.3 Cooperation, Engagement, and Public-Private Partnerships

Governments will need to take policy and regulatory leadership and help to facilitate private sector engagement into projects to better manage carbon in the seascape, both through direct support and blended finance, through risk reduction concepts.[31] In addition, the Global Ocean Observing System (GOOS) can broker expert consultation with nations, harnessing the focus, skills, and intent of the international ocean observation community.[32]

Development Banks such as the World Bank and the Asian Development Bank have recently launched blue finance initiatives but these need to be integrated with efforts such as the UN Decade for Ocean Science for Sustainable Development [33] to develop a broader global ocean finance architecture that supports a rapid transition and provides entry points for ocean technology, innovation for sustainability and, for significant investments into the protection of blue natural capital within and beyond national borders.

5.4. Financing a Sea-Change

Beyond increased commitments to relevant projects and institutions, such as the Adaptation Fund and the Green Climate Fund, express allocations should be set for ocean solutions for multilateral development banks as well as for private sector asset managers. Governments need to encourage innovative finance mechanisms, such as blue bonds as well as new public-private partnership approaches such as those being developed and working on through the Ocean Risk and Resilience Action Alliance, and particularly its Sea Change Impact Finance Facility.[34]

Increased investment funding in a sustainable blue economy is necessary to protect and restore the ocean. Investments are needed in early-stage, nature-positive and ocean-science-based opportunities, in profitable and job-creation activities respectful of biodiversity, as well as through large-scale investment into coastal blue infrastructure that is zero-carbon, resilient, equitable, biodiversity positive and implements nature-based solutions. The scale and urgency of the challenges posed by ocean-derived risks calls for a transformative and global response based on public-private partnerships locally and globally. The G7 Nature Compact 2030[35] commits to increased finance contributions for nature-based solutions through to 2025. The transition to a sustainable blue economy requires a concerted finance approach with increased public and private funding (as well as the contribution of public development banks and NGOs).

31. Surminski, S et al (2021) A new path on climate change, oceans and financial risks, in: A new policy paradigm. LSE
32. https://www.g7fsoi.org/g7-fsoi-and-goos/
33. Claudet et al. (2020) One Earth 2, 380–384
34. https://www.oceanriskalliance.org
35. "G7 2030 Nature Compact," Cornwall https://www.consilium.europa.eu/me- dia/50363/g7-2030-nature-compact-pdf- 120kb-4-pages-1.pdf

6. CONCLUSION

The G7 needs to lead the way by ensuring that a financial deal for the ocean complements the proposed 'Ocean Deal'. A strong commitment by the G7 to the build-out of a new global ocean finance architecture would be a critical and timely contribution to driving the sea-change that is needed in this space. This would be especially catalytic if it helps to address the capacity-building and developmental challenges faced by the Global South[36], supports the development of an investable pipeline of products to feed into a new sustainable global marketplace, provides additional guarantees to de-risk investment, and can be leveraged to crowd-in the billions of dollars of private sector finance waiting for this signal to invest.

Leadership by G7 nations[37] on blue finance is critical to fully engage the private sector investment that will be required to deliver the tens of billions of dollars needed to stop ocean degradation and advance ocean recovery, delivering economic opportunities and social and cultural resilience to the billions of people that directly – and indirectly - depend on a healthy ocean.

36. Thiele, T (2021) Innovative Finance for Africa's Blue Economy in Sparks, D. (ed) Blue Economy in sub-Saharan Africa. Taylor Routledge.

37. Note that at the time of this paper's publication four of the G7 members (Canada, France, Japan and the United States) are members of the High Level Panel for a Sustainable Ocean Economy, and have committed to ambitious action that aligns well with the Ocean Deal proposed by Germany.