Making conservation pay

A roundtable on 'Investing in biodiversity' in Melbourne last week was told Australian banks and investors actively support finance for conservation. But ongoing changes to state environment regulations have created uncertainty, which isn't good for investors.

The aim of the roundtable was to galvanise investment in conservation and business practices that manage natural resources more sustainably. 'Managing the planet's natural assets is everyone's responsibility and leading businesses understand that', roundtable organiser Amanda Cornwall said.

She cited a 2014 Credit Suisse study which said the private sector globally needs to increase its spending on conservation by a factor of 20 to 30, she said.

Uncertainty in regulated biodiversity markets

Government is the major provider of financial incentives for conservation through state based regulations protecting native vegetation and threatened species. The laws require developers to offset any unavoidable biodiversity losses from their project by purchasing 'credits', which are created by setting aside land for conservation purposes.

Hancock Victorian Plantations told the roundtable how they manage part of their land holdings for conservation purposes. They've protected some of those areas under conservation covenants, creating native vegetation credits that they've been able to sell to developers with offset obligations.

Amanda Cornwall told the roundtable that recent changes to biodiversity laws in Victoria and Queensland, and changes recommended in a 2014 review in NSW could make biodiversity markets more robust. Key trends include prioritising conservation at landscape scale and expanding biodiversity credit registers to facilitate trading. But roundtable participants weren't optimistic.

With governments in Victoria, NSW and Queensland planning further changes to these laws in 2015 investors see uncertainty, which means they're advised to stay away for now.

The new Victorian government's priority in 2015 is developing a Biodiversity Strategy and a review of the *Flora and Fauna Guarantee Act* will follow. It's not clear if legislation for native vegetation offsets trading in Victoria will be introduced this year or even in this term.

Putting natural capital risk on the balance sheet

Rosemary Bissett of National Australia Bank told the roundtable that banks and investors are more interested in measuring natural capital risk rather than biodiversity units.

NAB, the country's biggest agribusiness lender, has recognised that running down the world's natural assets such as water, soil and forests is a material risk to the economy and businesses should treat it as a financial risk.

For the bank, sustainable farming practices indicate that a landholder is managing natural capital risk. To reflect this NAB has changed its policies so that credit assessments put more weight on the sustainability of customers' business practices. Eventually, borrowers who manage their natural resources more sustainably might expect to receive a credit rating upgrade.

NAB has signed the Natural Capital Declaration, an international finance sector initiative to integrate natural capital considerations into loans, equity, fixed income and insurance products. A working group on Accounting for Natural Capital is developing a method to account 'for the impacts, benefits and dependencies on natural capital at the company and portfolio level in order to ultimately apply it to a financial institution's own balance sheet.' Another working group is developing a disclosure and reporting framework.

Businesses that adopt superior natural asset management are likely to deliver improved productivity and can use it to set themselves apart from the competition.

Good information is crucial

Having sound scientific information on the condition of the landscape and marine environments is crucial to planning and monitoring the success of conservation actions.

Trust for Nature CEO Victoria Marles told the roundtable that they had used the Victorian government's scientific information and mapping tools to develop a conservation plan for private land in Victoria.

The plan provides the first statewide analysis of conservation priorities on private land, which makes up two thirds of the state. TFN has used the plan to engage with philanthropists and landholders.

Unfortunately the environment departments of state and federal governments have lost considerable expertise and staff resources in recent years and it's not clear if it will be restored.

Barriers to investment

Many banks treat covenants to protect land for conservation or carbon sequestration purposes as reducing the value of 'productive' land. As a result, they resist giving permission to mortgagees who want to put a covenant on their land. Accounting methods and attitudes need to change.

The Australian tax environment does not incentivise conservation activities by private landholders. And in Victoria private land set aside for conservation purposes incurs land tax.

Combining carbon and biodiversity

Wayne Wescott, CEO of Greenfleet advocated finding ways to quantify the multiple environmental benefits of carbon sequestration projects. Greenfleet specialises in voluntary carbon offsets generated by biodiverse reforestation projects.

He posed the option of developing a national standard to quantify biodiversity credits for a voluntary biodiversity market, and as an adjunct to carbon offsets. State governments explored a national biodiversity standard in 2010 but in the absence of a regulated carbon market it didn't proceed.

Australian regulations on biodiversity and carbon credits effectively preclude multiple environmental credits being recognised together because of 'additionality' rules. That means landholders and investors have no financial incentive to deliver biodiversity benefits alongside carbon credits even though it requires extra work and expense, and would be better for the environment.

The Gold Standard in the voluntary carbon market demonstrates how projects can have multiple, verifiable benefits including improving water quality, biodiversity and carbon offsets.

New financial products

The roundtable briefly considered financial products that might be useful to raise funds to facilitate conservation projects or changes in business practice to manage natural capital risk.

Green bonds or climate bonds are a possibility. Investors in green bonds expect to hold on for the longer term and they're in it for more reasons than return on investment.

Another suggestion is 'environmental upgrade agreements' as a model for raising finance to support farmers moving to more sustainable land management practices. EUAs have successfully encouraged retrofitting of commercial buildings in Melbourne and NSW to improve energy and water efficiency and reduce costs in the long term. The agreements are made between the building owner, council and financier, and are enabled by state government legislation.

What next?

The Australian Business and Biodiversity Initiative will follow up the issues raised at the roundtable. Many participants are ABBI members including NAB, Flora and Fauna International, the Australian and Victorian governments, Greenfleet Australia and Amanda Cornwall and associates.

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Participants

- John Bergin, bankmecu
- Rosemary Bissett, National Australia Bank
- Crystal Bradley, Department of Environment Australia
- Peter Brennan, Parks Victoria
- Vivienne Clare, Department of Environment, Land, Water and Planning Victoria
- Amanda Cornwall, Amanda Cornwall and associates
- Jennifer Fraser, Eartheon
- Sara Gipton, Carbon Disclosure Project
- Alexandra Guild, Norton Rose Fulbright
- Aaron Harvey, Biosis
- Angela Hawdon, Flora and Fauna International
- Marnie Lassen, Trust for Nature
- Jeff Lynn, Ashurst
- Victoria Marles, Trust for Nature
- Gavan Mathieson, Corangamite Catchment Management Authority
- Kylie Shanahan, Department of Environment, Land, Water, and Planning Victoria
- Chris Schulz, Allens Linklaters
- Lewis Tyndall, Green Collar consulting
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