Australian Banking Association

21 September 2022

Biodiversity Market Policy and Design Team
Department of Climate Change, Energy, the Environment and Water
Via email: biodiversitymarket@DCCEEW.gov.au

Dear Biodiversity Market Team,

Biodiversity Market

The Australian Banking Association (ABA) welcomes the opportunity to provide feedback on the proposed voluntary biodiversity market. Banks in Australia are generally supportive of nature-related markets, payments for ecosystem services and providing incentives to landholders to create positive outcomes for nature.

A robust biodiversity market, with the highest of integrity standards, demonstrating credibility, additionality, and enduring positive impacts to nature would ensure our landholders can realise the value of the natural-related benefits they provide and give confidence to investors looking to fulfil ESG objectives.

Having a well-designed, outcomes-based market will connect private sector finance with landholders and will make it easier for banks in Australia to invest in and lend against biodiversity projects. Voluntary private sector investment can, and does, make a significant contribution to nature and having a regulated market-based approach can help scale up investment activities with conservation and nature positive outcomes. This would, however, need to be accompanied by public investment and national environmental reform, as outlined in the State of the Environment report[1].

Key points:

1) Clear purpose and drivers for private sector investment

To ensure the creation of a credible and well-functioning voluntary biodiversity market, goals and performance measures for any such scheme must be clearly articulated and specifically outline how this market will contribute to positive biodiversity outcomes.

There is a need to highlight the specific goals a biodiversity market would be aiming to achieve and to articulate the incentives for private sector participation (both buyers and sellers).

To encourage private sector investment, there needs to be a clear driver or incentive to purchase biodiversity certificates. Experience to date shows that carbon offsets are purchased almost entirely to achieve carbon neutrality. Assuming that the private sector motivation to purchase biodiversity certificates is similar (e.g. to achieve nature positive or to 'neutralise' biodiversity impacts: direct and/or indirect) then a scheme would have to be regulated, certified, and marketable.

Additionally, it is essential to exclude biodiversity compliance offsets from the voluntary market. Biodiversity compliance offsetting is primary about counterbalancing the loss associated with a project as opposed to stimulating biodiversity and ecosystem regeneration, as appears to be the purposed of the

[1]Australia State of the Environment 2021,https://soe.dcceew.gov.au/

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proposed voluntary biodiversity market.[2] While some biodiversity compliance offsets may result in these enhancements, this is generally a secondary outcome.

2) Need for standardisation

The ABA notes that it is intended that a nationally consistent biodiversity credit framework would be created to ensure credible processes underpin market integrity. This should include processes to define acceptable biodiversity credit quality and verify biodiversity outcomes generated by each biodiversity project. Each project should be issued a singular biodiversity certificate, capturing key project attributes in a standardised way and to give provenance to the credit. This information should then be held (and retired when used) in a credible register.

The success of a voluntary market will lie in having a consistent approach to the creation of certificates which standardises the units of value (credits) of such projects e.g., habitat hectares[3] and allows the market price to be discoverable in real time. Without this standardisation, challenges will be faced for not only landholders in knowing the potential value of projects under consideration, but also present comparability challenges (and therefore elevate transaction costs) for the private sector.

Additionally, if land holders lack advanced knowledge of the sale price of a potential biodiversity project, this will make it challenging to determine whether it is financially viable to register the project. This may also reduce appetite for landholders to participate in the scheme.

The ABA welcomes further details on how the government will ensure a consistent and standardised approach for biodiversity certificates.

3) Supply and demand

It will be important for the government to play a role in ensuring that the biodiversity credits being delivered are those that are desired/required by buyers.

Having a mechanism to match buyers needs with land holders (including desired time horizons for projects) is crucial. If there is no easy way to match buyers and sellers and no consistent unit (or units) of value, transaction costs will be exorbitant.

While the ABA notes the government plans to create a public register, we suggest an exchange to be considered as an alternative. An exchange would be a more efficient way to ensure the necessary information is disclosed and could also match the needs of a buyer and a seller in the one system.

4) Market integrity

The ABA agrees with the acknowledgement by government that ensuring environmental integrity is critical to the success of a functioning voluntary biodiversity market and notes the proposal to establish a compliance and assurance system. It is vital that this system includes an expert advisory group that has significant authority over methodologies and validation.

As private sector buyers may seek to make claims to the market about improvements to biodiversity as a result of their investment, legislation must be based on payments for quantifiable environmental outcomes rather than activities that assume these outcomes will take place.

Ensuring that certificates represent true additionality and verifying projects are having a positive impact on nature, that would not have otherwise occurred, is fundamental to the integrity of a voluntary

[2] Biodiversity Compliance Offsets have detailed technical requirements that include like-for-like exchanges of non-fungible projects. A generic biodiversity certificate could not account for the requirements of offsetting, which would be more akin to the creation of 1000s of markets, for individual species, ecosystems, and services. The intention of the biodiversity market appears to be for a generic biodiversity certificate to be purchased for non-compliance, non-regulatory reasons, but this distinction must be made clear.

[3] The Victorian biodiversity assessment guideline outlines a habitat hectare as a site-based measure that combines extent and condition of native vegetation.

biodiversity market. Without this validation of additionality, the appetite for investment by the private sector may be significantly reduced.

Baselining and subsequent monitoring and surveillance, including remote sensors or satellite technology, will be essential to confirm this additionality. This will also provide comfort to buyers that they are obtaining the anticipated value from their purchase and that they will not be subject to future litigation risk for misleading claims. Additionally, as a starting point, the use of remote sensors or satellite technology would be the most cost-effective option to deliver robust data.

Transparency of modelling and project assurances are also important as these will allow investors to review the underlying assumptions, data, and overall projects components.

While environmental integrity is paramount, it is however, important to recognise that this is only part of the picture. Any new voluntary biodiversity market must ensure integrity across each component of the market from supply to demand, including behavioural integrity of market participants.

5) Draw on insights from state-based schemes

The ABA encourages the federal government to explore existing state-based biodiversity schemes to ensure their positive attributes can be leveraged and identified shortcomings avoided.

For example, one of the criticisms for current state-based schemes is the lack of comparability. This would be an essential area for the government to consider when developing a national voluntary biodiversity market. It would also be useful to understand if and how the proposed national market will interact with existing state-based schemes.

In the appendix, the ABA has highlighted a series of initial points for consideration as the government considers scheme design at a greater level of detail. The ABA would welcome further engagement with the government regarding the proposed voluntary biodiversity market.

Yours sincerely

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Appendix

Areas for further consideration by the government:

- Who are anticipated main buyers of the certificates and what are the key drivers for private sector participation?
- Will biodiversity certificates allow a corporate to achieve 'nature positive' certification or similar?
- Does the government intend to exclude biodiversity compliance offsets from the voluntary biodiversity market?
- What will be the minimum permanence arrangement for the biodiversity certificates?
- Will each certificate represent an action or an outcome?
- How will certificates be retired?
- Who will oversee the retirement process, and will retirement be captured on the register?
- How will the scheme measure additionality of a project and ensure that the actions taken will have a positive impact on nature that would not have otherwise occurred?
- Considering reversal risk, what protections or remediation does a buyer have if the benefits of a project are reversed by environmental destruction or development?8im
- How will certificates form a divisible asset or have a clear value to be 'cashed in against'? For example, how will the market know how to price these projects?
- How will carbon and biodiversity markets operate in parallel with each other and how will issues such as whether carbon and biodiversity projects can be overlayed onto the same land, and the role of a 'carbon plus' project that deliver both carbon and biodiversity co-benefits be addressed?
- Will the scheme include freshwater and marine ecosystems?
- How will the proposed voluntary biodiversity market align with international developments and what could this mean for an international biodiversity credit market in the future?
- How will this be considered in the light of the Chubb review – will this market wait until outcome know
- How could the purchase of a biodiversity certificate be used as an offset to compensate for biodiversity loss elsewhere?
- Has the government had engagement with bodies such as the International Union for Conservation of Nature (IUCN)?
- How will remediated land, which has been returned to the state, be treated in the proposed Scheme?