

Biodiversity credits: State of play and what's to come

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Introduction

The World Economic Forum (WEF) estimated that over 50% of the world's economic output is at least moderately or highly dependent on natural ecosystems. There would be significant economic and societal impacts if natural ecosystems were to collapse. Based on WEF's 2023 Global Risks Report, 'biodiversity loss and ecosystem collapse' was listed as one of the top five global risks of the next decade.

Interest in biodiversity credit markets is increasing as investors are becoming more aware of increasing nature risks because of global dependencies on natural capital. Biodiversity credit markets can drive investment in efforts to conserve biodiversity and deliver nature-positive outcomes aligned with climate goals.

This report covers some examples of existing biodiversity credit schemes, regulatory drivers and an upcoming framework, as well as the outlook for the biodiversity credit market.

Existing biodiversity credit schemes

There are several biodiversity credit schemes in place, such as the following:

1) EcoAustralia credits, Australia

South Pole launched a carbon and biodiversity product, called the EcoAustralia credit, for voluntary buyers in Feb 2018. One EcoAustralia credit combines one Australian Biodiversity Unit (ABU), representing 1.5 m² of government-accredited habitat protection, with one carbon credit. Purchasers of the EcoAustralia credit can therefore support Australian biodiversity conservation projects, such as the Mount Sandy Conservation project and the Myamyn Lowland Conservation project.

2) Sustainable Development Units (SDUs) Programme, New Zealand

A biodiversity credit product was launched in New Zealand in Jul 2022. The first transaction of biodiversity credits was facilitated by the Ekos SDU Programme, where conservation site Sanctuary Mountain Maungatautari sold credits to Profile Group Limited. The proceeds were channelled into the conservation and management of 83 hectares at Sanctuary Mountain Maungatautari. The SDUs were issued for short term biodiversity outcomes

e.g. minimise growth of pest and weed populations. However, the price that the biodiversity credits were sold for was not disclosed.

To increase finance flows into nature-positive projects, the New Zealand government published a consultation paper this year, seeking feedback on how a biodiversity market would function and the role of the government in implementing it.

3) Voluntary biodiversity credits, Colombia

ClimateTrade, a blockchain-based marketplace, and Terrasos, a biodiversity conservation and habitat banking organisation, launched voluntary biodiversity credits in Colombia in May 2022. The first project to issue voluntary biodiversity credits was the Bosque de Niebla-El Globo habitat bank¹, dedicated to support the conservation of the spectacled bear in the High Andes. Each biodiversity credit is priced at USD30, corresponding to the restoration of 10 m² of the Bosque de Niebla forest preserved or restored for 30 years.

Another Colombian habitat bank called the Meta habitat bank sold out its awarded 600 biodiversity credits, where each credit represents 1 hectare of the habitat conserved for three decades. There are plans to expand the Meta habitat bank by 400 hectares.

Regulatory drivers and upcoming framework for biodiversity credits

Current regulations surrounding biodiversity credits mainly exist under schemes that require players to compensate for negative impacts on nature. For example, Colombia's biodiversity offset scheme mandates project developers to offset residual biodiversity impacts by restoring or conserving a similar habitat elsewhere. The UK government is also going to implement mandatory Biodiversity Net Gain (BNG) requirements that will come into force in Nov 2023, with statutory biodiversity credits to be sold by the Secretary of State to project developers as a last resort option to deliver biodiversity net gain. There are plans to phase out the statutory biodiversity credits once the biodiversity credit market has matured. To allow project developers to plan ahead, the UK government has published indicative price tiers for the statutory biodiversity credits. The prices range from GBP42,000 per credit for habitat types such as grassland and cropland, to GBP125,000 per credit for coastal lagoons and GBP650,000 per credit for lakes.

International frameworks for voluntary biodiversity credit schemes are still in their early stages of development. Investors are looking towards high-quality biodiversity credits as one of the key levers to drive finance to achieve

¹ According to Terrasos, habitat banks refer to land areas demarcated for the preservation or restoration of ecosystems to offset negative impacts on biodiversity.

the COP15² target of mobilising at least USD200 billion/year in domestic and international biodiversity-related funding by 2030. To achieve these targets, strong governance frameworks will be required to ensure the transparency and credibility of biodiversity credits.

Verra is developing a nature crediting framework for biodiversity projects to use as guidance, to be nested within Verra's Sustainable Development Verified Impact Standard (SD VSta). Verra is working with other organisations such as Conservation International and IUCN on the framework. This program is expected to become one of the key standards in the emerging voluntary biodiversity credit market, by providing global guidelines and methodologies for biodiversity projects to meet. Eligible activity types include those that reduce decline in biodiversity, restore biodiversity or maintain intact biodiversity. In July, Verra called for project developers to pilot its nature credit framework and aims to release a draft version of the framework and methodologies for public consultation by the end of 2023. With a framework in place, investors can eventually support high-quality biodiversity projects and contribute to nature-positive outcomes.

Outlook of biodiversity credit markets

BloombergNEF estimated that the nascent biodiversity credit market could reach USD160 billion by 2030, highlighting the potential for growth in this space. With the emergence of global and national biodiversity targets, coupled with the development of nature frameworks, interest in biodiversity credit markets or carbon credits with biodiversity benefits is expected to increase. According to a report by the Inevitable Policy Response (IPR), carbon offsets with documented biodiversity benefits fetch a USD5 premium, and this trend may become stronger over time with market developments. IPR reported that project developers for biodiversity projects may see prices of around USD12/ha per year by 2030, which may increase to USD45 in about two decades.

It is important that the lessons learnt from the drawbacks in the voluntary carbon markets are applied to biodiversity credit markets. However, it can be even more challenging to navigate through biodiversity credits because of the inherent complexity and interconnectedness of diverse ecosystems. Different geographies have different vegetation and species diversity, making biodiversity units more difficult to quantify than one ton of carbon emissions. Some also argue that there is danger in enabling corporates to purchase biodiversity credits to get away with negative biodiversity impacts elsewhere, similar to the issue with carbon credits. Nonetheless, COP15 recognised biodiversity credits as an innovative mechanism for biodiversity financing, to mobilise the implementation of biodiversity strategies. For a

² COP15 refers to the United Nations Biodiversity Conference that was held in Montreal, Canada, in 2022.

high-integrity biodiversity credit market, there needs to be robust guidelines and verification processes in place to prevent greenwashing and foster investors' confidence in the market.

Sources: BloombergNEF, Carbon Pulse, Climate Trade, Inevitable Policy Response, Nature Finance, New Zealand Ministry for the Environment, South Pole, Taskforce on Nature Markets, UK Government, Verra, World Economic Forum

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