



HBOS plc

Biodiversity offsets: good for business and biodiversity?

Kerry ten Kate
Director, Investor Responsibility,
Insight Investment
Fellow, Forest Trends

Presentation to the private Katoomba meeting :
Emerging markets for ecosystem services
20 November 2004

What are biodiversity offsets?

“Conservation actions intended to compensate for the residual, unavoidable harm to biodiversity caused by development projects, so as to ensure no net loss of biodiversity.

Before developers contemplate offsets, they should have first sought to avoid and minimise harm to biodiversity.”

Insight & IUCN, 2004

Experience with voluntary biodiversity offsets



HBOS plc

■ Groups of companies:

- **EBI:** BP, Chevron Texaco, Shell, Statoil, CI, FFI, Smithsonian, IUCN, TNC
No net loss of biodiversity at project site. Should be minimum standard.
- **ICMM:** “an option for addressing impacts”: preparing a “White Paper”

■ Corporate policies:

- **Principles:** ‘no harm’; ‘no net loss’; ‘positive contribution’; ‘net benefit’; ‘enhance biodiversity’
- **BP:** Lord Browne, CEO: ‘We can have a real, measurable and positive impact on the biodiversity of the world.’ (April 2000)
- **Rio Tinto:** ‘net positive effect’

■ Company activities:

- **on-site:** EIA, mitigation, rehabilitation, restoration in concession contracts, host government & production supply agreements
- **off-site :** some specific biodiversity offset activities

Why should business offset the harm it causes to biodiversity ?



HBOS plc

■ Legal requirements:

- Law that mandates offset (US, EU, Brazil, Australia)
- Law that facilitates offset (EIA, planning law, concession agreements)

■ The business case for voluntary biodiversity offsets:

- License to operate, reputational risk, regulatory goodwill
- Access to capital, lower costs of compliance
- New market opportunities, competitive advantage
- Influence regulation
- Employee satisfaction and retention
- Better conservation outcomes

Trends suggest license to operate is critical

- Access to land & sea vital
- Overlap between biodiversity and future extraction
- Move to wilderness
(accessible reserves exploited since Industrial Revolution and before)
- Non-OECD
- Marine
- More control over access
- Public concern: new
“social contract”
- Access to assets is key performance driver (Goldman Sachs, 2004)
- Typical mine/reserve life \approx 25yrs
- Unprecedented replacement rates & productivity of mature reserves declining 5-10% p.a. (GS, 2003)
- 70% of reserves and production for 120 oil and gas projects are in non-OECD countries cf 21% in 1970. (GS, 2003)
- Highest biodiversity largely in tropical, developing countries.
- WRI: $\frac{3}{4}$ of active mines and exploratory sites overlap with areas of high conservation value.
- 67% the oil and gas industry’s 50 most important new projects are marine (GS, 2003)
- More Protected Areas: up from 60,000 in 2000 to 102,500 in 2003. New focus on marine.

Potential conservation benefits of biodiversity offsets



HBOS plc

- More *in situ* conservation activity than occurs now
- Better conservation outcomes by focussing on high biodiversity value habitat and conservation priorities instead of highly compromised sites
- A mechanism to integrate conservation into development planning and biodiversity into the investment plans of companies;
- Greater economic value to biodiversity
- New source of finance for biodiversity conservation

Potential benefits for governments and communities



HBOS plc

Government:

- companies make increased contributions to conservation, without necessarily requiring elaborate new rules;
- development projects planned in the context of sustainable development; and
- better balancing of the costs and benefits of conservation and economic development.

Communities:

- ensure developers leave a legacy of rehabilitated project sites and additional conservation benefits in the surrounding area;
- negotiate optimal environmental, economic and social outcomes at a community or landscape scale; and
- identify pre-project biodiversity and ecosystem benefits and ensure important ecosystems remain functioning and productive during and after development projects.

- **Offsets are no substitute for “no go” areas:**

Where development is not appropriate, the question of offsets should not even arise.

- **Failure to deliver:**

Even in the context of mandatory offset regimes, many conservation groups believe that the requirements for viable offsets have not been met. Many feel wetland banking in the USA has failed to deliver “no net loss”.

- **Controversy:**

Some conservation groups oppose the concept entirely. Others feel the theory has not been delivered in practice. At the same time, some developers feel offsets will cost more than they can bear. Public scepticism that “no net loss” will be delivered in practice. Stakeholder consensus is difficult.

- **Standards:**

Credible and transparent standards, methodologies and guidelines for biodiversity offsets, if the approach is to be adopted more widely.

The business case for offsets

- **License to operate:** Access to sites; good relations with communities and regulators; “favoured partner” status; “social contract”; influencing policy.
- **Effectiveness:** Maximise biodiversity value - priority conservation areas
Bang for buck; good PR; motivation for company and employees.
- **Flexibility:** Change location, scale of rehabilitation
Third party implementation; trade.
- **Efficiency:** Practical tool for managing risks and liabilities;
pick most cost-effective option; reduced costs of compliance.
- **Markets:** New markets and emerging businesses; first mover advantage.

Ground rules



HBOS plc

- **Offsets are no substitute for “no go”**
- **Depends on societal and stakeholders’ consent**
- **Not all precedent is encouraging**
- **Needs further dialogue**

Trends suggest license to operate is critical

- Access to land & sea vital
- Overlap between biodiversity and future extraction
- Move to wilderness
(accessible reserves exploited since Industrial Revolution and before)
- Non-OECD
- Marine
- More control over access
- Public concern: new
“social contract”
- Access to assets is key performance driver (Goldman Sachs, 2004)
- Typical mine/reserve life \approx 25yrs
- Unprecedented replacement rates & productivity of mature reserves declining 5-10% p.a. (GS, 2003)
- 70% of reserves and production for 120 oil and gas projects are in non-OECD countries cf 21% in 1970. (GS, 2003)
- Highest biodiversity largely in tropical, developing countries.
- WRI: $\frac{3}{4}$ of active mines and exploratory sites overlap with areas of high conservation value.
- 67% the oil and gas industry’s 50 most important new projects are marine (GS, 2003)
- More Protected Areas: up from 60,000 in 2000 to 102,500 in 2003. New focus on marine.

Why pilot projects?



HBOS plc

- Put the theory to practice: demonstrate net benefits
- Point to projects on the ground that demonstrably improve the status of biodiversity
- Practical experience as input to public debate

What sort of pilots?



HBOS plc

- **Compensatory conservation**: calculated to offset the unavoidable damage to biodiversity caused by the development activities involved.
- **Unavoidable damage**: developer first seeks to avoid and minimize damage to biodiversity, so offset is part of the “mitigation hierarchy”.
- **Participation**: dialogue and agreements between the developer, government, local communities. NGOs, ecologists, economists, lawyers etc involved to facilitate design. NGOs or others may implement the agreed conservation activities.
- **Project**: any development project with a significant direct footprint on biodiversity, eg mining & minerals, oil & gas, utilities, infrastructure, transport, construction, agriculture etc. Private or public.
- **Quasi-voluntary**: business case, not regulatory requirement.