Biodiversity offsets: mileage, methods and (maybe) markets

“Beyond carbon - emerging markets for ecosystem services”
Katoomba VI • Locarno, Switzerland 1 November 2003

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Biodiversity offsets: lateral thinking

“Never, ever, think outside the box.”
Biodiversity offsets: mileage, methods and (maybe) markets

- Context & key questions for a mainstream investor
- Current experience with biodiversity offsets
- Basis and challenges
- Conclusions and next steps
Key questions for a mainstream investor

Context:
- Insight is the asset manager for Halifax Bank Of Scotland (HBOS).
- £67.7 bn under management. 300 pension funds and > 2m retail clients.
- Engagement across whole portfolio. Working on integration.

Key questions:
- Could voluntary biodiversity offsets by companies work? Or would a regulatory regime be needed?
- Could the political, scientific and logistical challenges with offset be overcome and companies motivated to participate?
- What role could investors play?
Experience with biodiversity offsets

Offsets required by legislation

- US Clean Water Act 1972 Section 404(b)(1)
- UK Electricity Act 1989 Schedule 9
- UK Habitats Regulations 1994

‘Enabling’ policy framework

- US Endangered Species Act
- Tenure & rights; conservation law; concession contracts HGAs/PSAs

Voluntary offsets

- Individual companies: Mining & Minerals; Oil & Gas; Utilities
- Principles: ‘no harm’; ‘minimise/mitigate’; ‘maintaining ecosystems’; ‘offset’; ‘positive contribution’
- EBI; ICMM
The ‘no harm’ principle in action

WE’VE DISCOVERED OIL IN THE ELBONIAN WILDLIFE PRESERVE.

DON’T WORRY ABOUT THE ENDANGERED SPECIES. OUR DRILLING WILL HAVE NO IMPACT.
Potential benefits of corporate biodiversity offset commitments

- **Conservation:** Positive contributions to conservation by companies

- **Flexibility:** Change location, scale of rehabilitation
  - Trade
  - Third party implementation

- **Efficiency:** Pick most cost-effective option - use flexibility

- **Effectiveness:** Maximise biodiversity value - select area
  - Bang for buck
Basis & challenges

- **Basis:** No net loss
  Maintain functional ecosystems & species representativeness

- **Currency:** ‘Not all hectares are created equal’
  Habitat function assessment methods - crude, multiplicity, no consensus
  Need reliable, inexpensive methods to measure ecosystem services

- **Where:** As near original site as possible? Similar ecosystem?
  Internationally tradeable?

- **Motivation:** Business case for voluntary, ‘beyond compliance’ measures:
  license to operate, reputation, competitive advantage, reduce liabilities
  Is this sufficient to encourage voluntary offset commitments?

- **Mistrust:** Public/NGOs: Genuine contribution or license to trash?
  Companies & government: fear of criticism.
Conclusions and next steps

See: www.insightinvestment.com/Corporate/responsibility/project/biodiversity.asp

Conclusions

- Potential conservation and business benefits from offsets merit further consideration.
- Scientific, logistical and political hurdles to cross.

Next steps

- Get your feedback and suggestions: kerry.tenkate@insightinvestment.com
- Research project.