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Biodiversity offsets: mileage, methods and (maybe) markets

“Beyond carbon - emerging markets for ecosystem services”
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Biodiversity offsets: lateral thinking

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"Never, ever, think outside the box."

Biodiversity offsets: mileage, methods and (maybe) markets



#BOS16

- **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?**

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

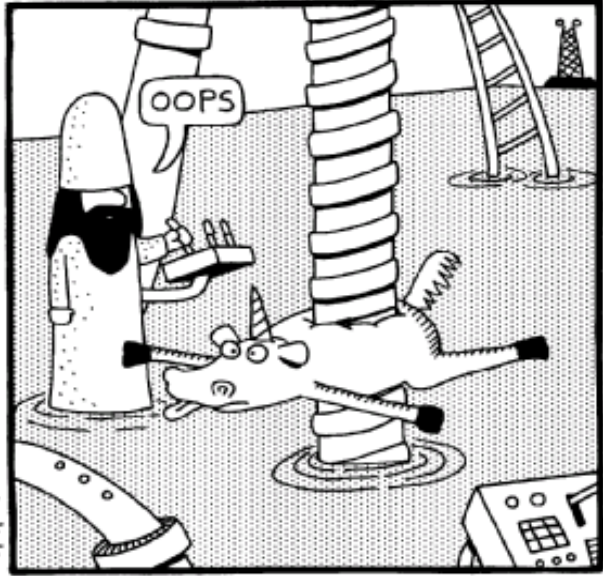
The 'no harm' principle in action



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Potential benefits of corporate biodiversity offset commitments



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- **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



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- **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



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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.