

The onset of offsets:

Biodiversity offsets: good for business and biodiversity?

Kerry ten Kate

**Director, Investor Responsibility, Insight Investment
Fellow, Forest Trends**

**Presentation to the World Conservation Forum
19 November 2004**

Why is a mainstream investor interested?



HBOS plc

- Insight is the asset manager for Halifax Bank Of Scotland (HBOS).
- £72.5 bn under management as at 30/6/04.
- Policy on corporate governance and corporate responsibility applied to all these assets.
- We engage with companies to encourage them to adopt high standards on social, environmental and ethical issues.
- Select issues that pose business risks and opportunities. The aim is to protect shareholder value.
- Biodiversity is one such issue.

Extractives & biodiversity: the business case



HBOS plc

Biodiversity poses a risk and opportunity for oil & gas, mining & minerals and utilities companies :

- Companies may face difficulties in the medium- to long-term in accessing resources in new sites, suffering competitive disadvantage relative to others with better practice.
- They may also lose revenues through incurring liabilities, damage to reputation and increased operating costs in the short term.
- Conversely, best practice management of impacts on biodiversity can offer benefits such as speed of obtaining consents and licenses or favoured partner status, increasing shareholder value.

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

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

Exploring biodiversity offsets



HBOS plc



HBOS plc

Biodiversity offsets:



Views, experience, and the business case

Kerry ten Kate, Josh Bishop and Ricardo Bayon
November 2004

Insight and IUCN: Biodiversity offsets Views, Experience and the Business Case



HBOS plc

Based on:

- **37 semi-structured interviews with individuals from:**
 - companies**
 - government & IGOs**
 - NGOs**
 - academia**
- **Some 20 shorter discussions with other people**
- **Literature review**

Report:

- **Introduction**
- **What is a biodiversity offset?**
- **Why biodiversity offsets?**
 - The conservation case**
 - The regulatory case**
 - The business case**
- **How to offset:**
 - Technical issues**
 - Stakeholder issues**
- **Conclusions**

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

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

Risks



HBOS plc

- **Offsets are no substitute for “no go” areas:**
Where development is not appropriate, the question of offsets should not even arise.
- **Failure to deliver:**
Many conservation groups believe 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 groups oppose the concept entirely. Others feel theory has not delivered in practice. And some developers feel offsets too costly. Public scepticism about “no net loss”. Stakeholder consensus is difficult.
- **Standards:**
Credible and transparent standards, methodologies and guidelines for biodiversity offsets, if the approach is to be adopted more widely.

Key findings about biodiversity offsets

- **Turning point:** Growing interest and experience, but little guidance and many unanswered questions. *“Transcending trade-offs.”*
- **No go:** Only relevant where development is appropriate and they should always take place as part of the environmental mitigation hierarchy.
- **Mandatory or voluntary:** Can work in a range of policy settings, each of which have advantages and disadvantages that should be taken into consideration
- **Flexibility:** Case-by-case responses are a pre-requisite. But there are probably some common principles.
- **Conservation priorities:** Clear priorities are needed for offset design.
- **Further work** is needed.

Basic principles



HBOS plc

- Measuring “no net loss” is a challenge but not an insuperable barrier
- Ecological equivalence and conservation priorities need to be balanced
- Local benefits and conservation priorities need to be balanced
- Offsets should demonstrate real *in situ* conservation outcomes
- Design depends on agreement by stakeholders

Insight's conclusions



HBOS plc

- **Biodiversity** presents a **significant risk** and **opportunity to business** in several sectors.
- A new “**social contract**” is emerging: **access to land and sea conditional on best biodiversity practice**.
- **Best practice** will come to mean “**no net loss**”, as a minimum.
- There is a **business case for companies to:**
 - specifically offset the unavoidable harm they cause to biodiversity for new projects in areas of high biodiversity value
 - contribute to conservation activities to demonstrate a positive contribution at the group level

Where do we go from here?



HBOS plc

- **Potential** conservation and business **benefits** from offsets **merit further consideration, but so do the associated risks.**
- **What's needed:**
 - **Discuss:** Input from different disciplines and stakeholder groups to enrich the debate
 - **Test:** Pilot projects to explore and identify best practice
 - **Guide:** Consultation to develop methodologies and guidelines

Next steps

- Your **views** on Insight/IUCN **report** welcome.
- Stimulate further **debate**.
- Insight and Forest Trends are developing **pilot projects**.

SPARE MATERIALS



HBOS plc

SPARE MATERIALS

The business case for offsets



HBOS plc

- **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.

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.