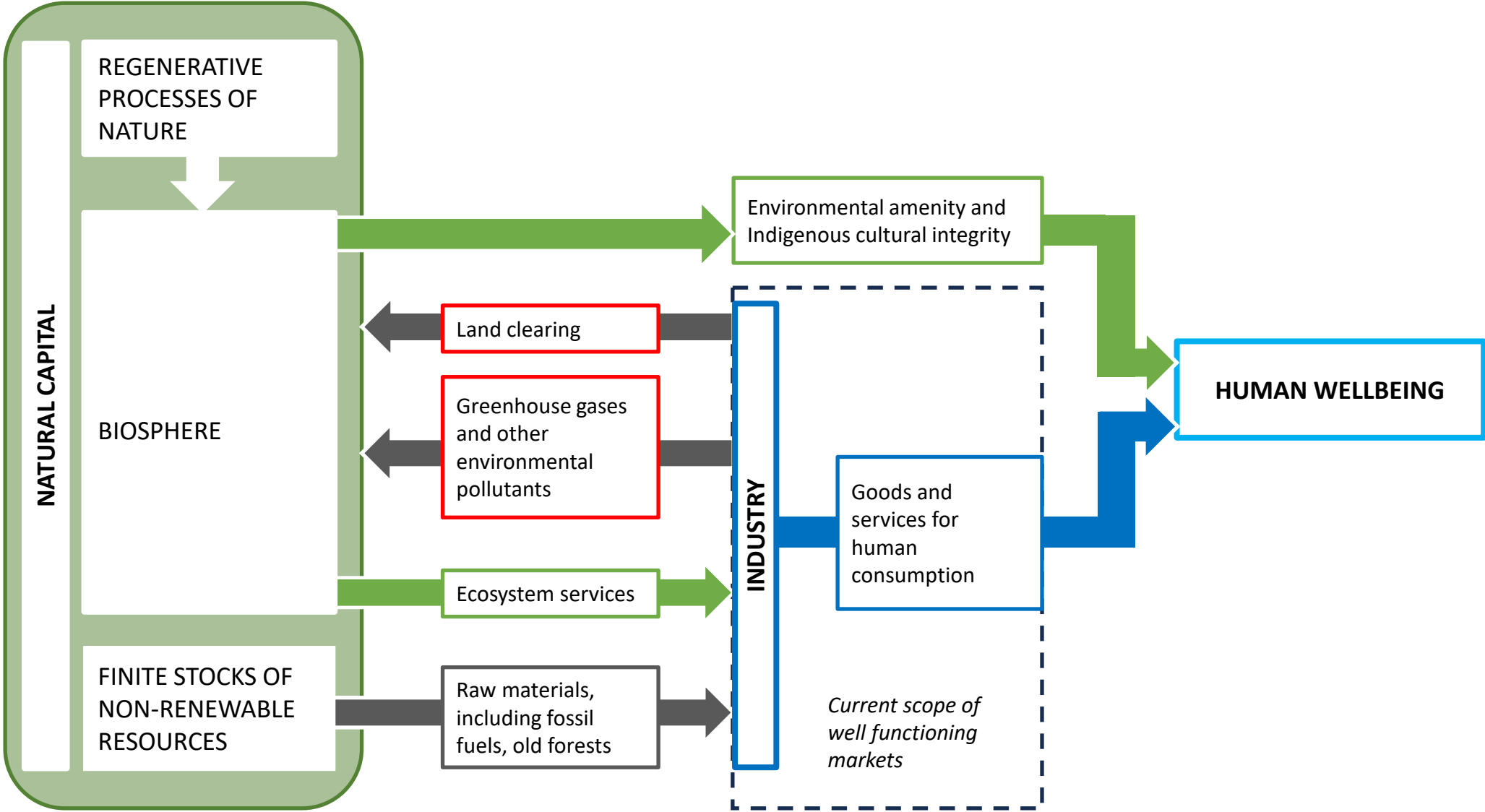


# Delivering environmental benefits using markets

ACCC/AER Regulatory Conference 2023

Ken Henry

# Natural capital, industrial activity and human wellbeing (anthropocentric framing)



# Natural capital has been plundered at a rate that far exceeds the contribution from regenerative processes

## In NSW

More than 30% of native vegetation has been substantially altered

954 threatened species and 111 threatened ecological communities listed

Only 50% of threatened species are expected to survive in 100 years

72 species have been rendered extinct, incl. 25 mammals

Pets and weeds threaten >70% of vulnerable species and ECs

Only 8% of freshwater sites are free from introduced fish species

## Across Australia

>650 pest animal species have been introduced

Migratory shorebird populations on the east coast have declined by 73%

Feral cats and foxes kill c.7 million native animals a day

Health of more than 90% of waterways in the MDB is rated 'poor' or worse

Extreme weather events linked to climate change (bushfires, droughts, heatwaves, storms and floods) are increasing in frequency and severity

# A global paradigm shift is underway

## ESD

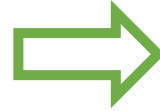
Environmental safeguards have been replaced by the notion of 'balancing' economic, social and environmental benefits.

Political process is concerned with:

optimising economic and social outcomes for this generation

*whilst merely*

monitoring selected indicators of the negative environmental consequences for future generations



## Nature positive (repair)

High Ambition Coalition for Nature and People (HAC) (June 2021)

G7 Leaders: 2030 Nature Compact (G7NC) (2021)

Glasgow Leaders Declaration (November 2021)

Kunming-Montreal Global Biodiversity Framework (GBF) (December 2022)

Australian Government's Nature Positive Plan (December 2022)

Australian Environment Ministers have agreed to set ambitious national targets, in line with the GBF, by mid-2024

# How to secure nature repair

## Government

Conventional

National parks

Experimental

Regulation (e.g., NSW BOS)

Private land conservation agreements and other grants to fund repair on private land (e.g., LRF)

Perfunctory

Environmental service obligations placed on users of the public estate (e.g., forestry)

Rare

Taxation of environmental externalities

Emergent

## Private sector

Philanthropy

Biodiversity co-benefits linked to carbon credits

Voluntary disclosures and product labelling

Regenerative agriculture

Pooled investment vehicles pursuing a purpose beyond profit

**What is the role of environmental markets?**

# Opportunities and challenges of environmental markets

**NOTE: Australia has chosen to price carbon at the marginal cost of offsets**

## Opportunities

Double (even triple) dividends: Carbon + Biodiversity (+ Enhanced profitability)

Improved forest management: Low value cash crops with high fire risk replaced by forest estates managed for carbon, biodiversity, fire resilience, aboriginal cultural heritage (ACBF)

New financial asset classes for portfolio diversification and active risk management

## Challenges

Ideological: aversion to markets, offsets, change

Evidentiary, including measurement of outcomes (AfN)

Issues affecting baseline and credit models: esp. additionality

Matching demand and supply, and price discovery: from OTC to public marketplace (DFCRC)

Scalability and liquidity

**What will government have to lead, and what will be market-driven?**

# Principles to guide policy and regulation

## Four propositions

Because environmental markets aim to address externalities, stakeholders extend well beyond participants.

Environmental claims have commercial value, even though benefits are largely external and temporally distant.

Information requirements of well functioning environmental markets are extreme: High risk of greenwashing.

Even so, we should see what we can do to nurture environmental markets to address an emerging crisis, leveraging rapidly growing investor demand for products linked to nature repair.

## Implications

1. A few traditional concepts make less sense

Caveat emptor

Sophisticated investor

PDS

2. Others make more sense

Standards and codes: Market-driven or mandated?

Transparency requirements: comprehensible, current, accurate, outcomes-based

Pre-issuance product approvals and certification: Public or private?

3. Economic policy makers and regulators are going to need a lot of science.