Submission on the proposed Market for Biodiversity

16 September 2022
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INTRODUCTION

EDO welcomes the opportunity to provide feedback on the Government's proposal to develop a legislated framework to underpin a voluntary national biodiversity market (the biodiversity market framework).

The biodiversity market framework is intended to facilitate investment in conservation and restoration. In essence, it will establish a mechanism for landholders to be rewarded for conservation action – by issuing certificates that can be sold on the private market to companies wanting to invest in nature and enhance their environmental credentials. At this stage it is unclear whether the biodiversity market framework will be set up to accommodate biodiversity offsetting.

The intention to pay landholders for genuine conservation outcomes is strongly supported. However, at this stage there is very limited information available about the Government’s proposed scheme. The consultation material consists of a simple three-page fact sheet. More clarity is needed on key issues including application, longevity of outcomes, detail of protocols, governance and implementation, interaction with indirect offsetting, and application to other co-benefits, such as social and cultural benefits. There are also concerns with basing the biodiversity market framework on Carbon Credits (Carbon Farming Initiative) Act 2011; and the proposal that the Clean Energy Regulator (CER) administer the Scheme.

In the absence of further information, we have assumed that the scheme has some similarities to the scheme proposed by the former Morrison government in its Agriculture Biodiversity Stewardship Market Bill 2022 (ABSM Bill) and our comments reflect this. However, given that it is a new scheme proposed by a new government, and given the lack of publicly available information available at this point in the consultation process, we strongly urge the Government to undertake further consultation, including on a draft Bill, and draft protocols.

Our submission addresses the following key issues:

1. The role of markets in biodiversity conservation
2. Stewardship certificates vs Biodiversity offsetting
3. Administration of the biodiversity market framework
4. Key elements to consult upon
   - Application of the biodiversity market framework
   - Objects of the biodiversity market framework
   - Social and cultural benefits
   - Biodiversity integrity standards
   - Risk
   - Monitoring, reporting, compliance and enforcement

We would welcome the opportunity for ongoing engagement with government as it continues to develop the biodiversity market framework and the opportunity to provide feedback on draft legislation before it is introduced into the Parliament.

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1 See https://haveyoursay.agriculture.gov.au/80274/widgets/383037/documents/241726
1. The role of markets in biodiversity conservation

The intention to reward landholders for genuine conservation outcomes is strongly supported. Traditionally, support for landholder stewardship has been government and community driven, with existing programs supporting conservation on private land established in most jurisdictions, for example, involving direct government grants or payments, or other support. Market-based approaches are emerging as an alternative way to address a broad range of environmental challenges, including reducing greenhouse gas emissions, improving water quality and restoring and conserving biodiversity. Increasingly, markets are an attractive option for sourcing funding for conservation actions from private sector proponents, to supplement limited conservation and restoration funding by government.

EDO supports initiatives to direct more funding to conservation and restoration, but strongly supports increased direct funding for conservation and restoration as a core budget expenditure – the cost of this essential work cannot be completely shifted to unproven markets.

Generally, environmental markets operate by putting a price on environmental commodities or ecosystem services, and facilitating trading between market participants – for example, greenhouse gas emitters may seek to buy carbon credits created by landholders undertaking tree planting projects. Market-based mechanisms can provide an incentive for environmental stewardship by creating opportunities for landholders to benefit (e.g., from payments) from undertaking conservation and restoration action on their land.

Market-based stewardship mechanisms (both carbon and natural capital markets) present both an opportunity and a risk. On the one hand, market-based mechanisms can drive an increased uptake in environmental stewardship in two ways: by providing additional pathways for landholders to benefit from setting aside land for carbon sequestration or conservation, and by providing access to new, private investment where government funds may be limited. On the other, significant concerns have been raised about the integrity of market mechanisms, particular offsets-based mechanisms, and their ability to deliver genuine environmental outcomes (see our comments on biodiversity offsetting below).

The success or otherwise of environmental markets is highly dependent on whether the market conditions adequately reflect the limited nature of natural resources and properly price the costs of environmental harm, including those costs that traditional economic models consider to be ‘externalities’. Without necessary limits and safeguards, market-based mechanisms can undermine genuine conservation efforts by legitimising both scientifically unsound policies and facilitating the continuation of high-impact activities such as land clearing or fossil fuel usage. Importantly, market-based mechanisms should not replace broader environmental conservation frameworks and regulation, but rather, where appropriate, form a complementary part of the framework.

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3 See, for example, EDO, *Defending the Unburnt: A guide to carbon sequestration opportunities for private landholders*, 2022, op. cit.
These are important concerns that must be considered as the biodiversity market framework is developed.

The Factsheet provides very brief and high-level summaries for the proposed foundational elements including:

- Biodiversity projects which meet the requirements of a biodiversity protocol
- Agreed protocols, endorsed by an Advisory Committee, setting out requirements for a ‘type’ of project
- Biodiversity certificates, issued at the project level, that can be bought and sold
- A public register of projects and certificates
- Provision for expert advice from the Advisory Committee and standards for biodiversity integrity
- A compliance and assurance framework

EDO agrees that these are important foundational elements and submits further detail should be provided for consultation on how these procedural elements would work, and how the scheme will ensure biodiversity outcomes are actually achieved. In our extensive experience – for example with the NSW Biodiversity Offsets Scheme – the dominant government focus on making sure the market is functioning (for example in terms of increased participants and lower costs), has resulted in a lack of focus on whether actual environmental outcomes are being delivered.

Recommendation:

- The Government should release a comprehensive discussion paper on options for the scheme design, draft legislation and draft protocols for consultation and expert input in developing the scheme.

2. Stewardship certificates vs Biodiversity offsetting

A critical threshold issue is whether the proposed market will generate biodiversity stewardship certificates solely for conservation outcomes, or whether those certificates would also be able to be used as credits to offset impacts of development. As noted above, at this stage it is unclear whether the biodiversity market framework will be set up to accommodate biodiversity offsetting.

In our view, this is a key issue that must be resolved early as it will affect the design of the framework moving forward. For the reasons set out below, EDO does not support offsets being part of the proposed market.

There is a significant difference between a biodiversity certificate as envisaged and a verifiable biodiversity credit for the purpose of offsetting.

The proposed biodiversity certificates are not an appropriate tool for offsetting. As the Fact Sheet indicates, unlike ACCUs, biodiversity certificates would not be directly equivalent (although they would present key project information in a standardised way). That is, the biodiversity market framework does not create equivalent units that can be readily used to exchange loss for gains. As is currently the case for the use of offsets, the value of the loss and the value of the gain would need to be assessed on a case-by-case basis.
Biodiversity offsetting – key issues and concerns

Biodiversity offsetting aims to ameliorate negative environmental impacts, including from development, agriculture, and industrial and infrastructure projects. The premise behind biodiversity offsetting is to protect and improve biodiversity values in one area to compensate for impacting on biodiversity values in another area; improvement (i.e. gain) in the biodiversity values of the offset area is needed to ensure there is no net let loss in biodiversity values. Offset schemes therefore inherently involve an attempt to balance habitat loss with gains elsewhere, in contrast to stewardship schemes that focus on habitat gains.

All Australian jurisdictions have an established biodiversity offsetting framework for offsetting the impacts of development, industry and infrastructure. As a stewardship mechanism, landholders can elect to establish a biodiversity offset area on their land, and sell biodiversity credits to proponents looking to offset biodiversity impacts. This is different to landholders setting up conservation-based areas on their land (which are not used as offsets).

Demand for biodiversity offsets is driven by both offsetting rules (i.e. offsets must meet legislative requirements such as geographic location and the types of biodiversity) and the market (i.e. offsets are required to meet the needs of proponents) rather than broader conservation goals. Therefore, there may be limited opportunities to align the supply of biodiversity offsets with conservation outcomes. Allowing biodiversity certificates to be used as offsets may give the Government less ability to align the outcomes of the framework with its broader conservation outcomes. This is because the demand for offsets will be a driving factor, rather than conservation goals.

It is critical to note that experts have raised concerns about the effectiveness of biodiversity offsetting and its ability to deliver the anticipated environmental outcomes. Concerns relate to difficulties in quantifying biodiversity values for market purposes, and in establishing offset markets (i.e. supply and demand requirements), challenges in re-creating nature, time lags in restoring areas, failure to account for declining base lines, failures to effectively manage offsets sites and protect offset sites in perpetuity, and perverse outcomes.\(^4\) The NSW Biodiversity Offsets Scheme is one of the more developed and complex schemes, and has been referred to as leading practice in Australia. However, we note the recent NSW Audit Office assessment of the scheme found significant flaws in terms of integrity, strategy, transparency, sustainability, implementation

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and delivery of gains. Serious issues relating to the scheme are also being scrutinised by a NSW parliamentary inquiry.

There is a lack of evidence to show that offset schemes actually deliver the predicted biodiversity outcomes. Where outcomes are not achieved, the result of offset schemes is actually a net loss of impacted biodiversity.

Given the serious integrity issues and uncertain outcomes, biodiversity offsets should only be used in limited circumstances and only as a last resort, with clear guidance on what impacts are so unacceptable that they should not be allowed and cannot be offset. If used, biodiversity offsets must meet best-practice standards. Even then, biodiversity offsets should not be seen as an equivalent stewardship mechanism to strictly conservation-based private land conservation agreements (such as conservation agreements in New South Wales and nature refuges in Queensland).

**Offsetting under the EPBC Act**

The Commonwealth already regulates biodiversity offsetting under its Environment Protection and Biodiversity Conservation Act 1999 Environmental Offsets Policy (Commonwealth Offsets Policy). The Commonwealth Offsets Policy guides the use of offsets to ameliorate the impacts of controlled actions under the Environment Protection and Biodiversity Conservation Act 1999 (EPBC Act). An offset requires strict like-for-like standards to be met under EPBC Act requirements, these are bespoke and site specific and cannot be captured under a standard protocol determination as proposed for the new market.

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5 The Audit Office found: The Department of Planning and Environment (DPE) has not effectively designed core elements of the NSW Biodiversity Offsets Scheme. DPE did not establish a clear strategy to develop the biodiversity credit market or determine whether the Scheme’s operation and outcomes are consistent with the purposes of the Biodiversity Conservation Act 2016. The effectiveness of the Scheme’s implementation by DPE and the Biodiversity Conservation Trust (BCT) has been limited. A market-based approach to biodiversity offsetting is central to the Scheme’s operation but credit supply is lacking and poorly matched to growing demand: this includes a potential undersupply of in-demand credits for numerous endangered species. Key concerns around the Scheme’s integrity, transparency, and sustainability are also yet to be fully resolved. As such, there is a risk that biodiversity gains made through the Scheme will not be sufficient to offset losses resulting from the impacts of development, and that DPE will not be able to assess the Scheme’s overall effectiveness, see Audit Office of New South Wales, *Effectiveness of the Biodiversity Offsets Scheme*, August 2022, available at https://www.audit.nsw.gov.au/sites/default/files/documents/FINAL%20Effectiveness%20of%20the%20Biodiversity%20Offsets%20Scheme.PDF


7 EDO’s concerns with biodiversity offsetting, and recommendations for strengthening current frameworks in line with best-practice, are set out in more detail in previous work including, for example:

The Commonwealth Offsets Policy was considered as part of the most recent Independent Review of the EPBC Act (Samuel Review). The Samuel Review made clear recommendations for how the Commonwealth’s regulation of offsets should be strengthened, including that:

- Immediate changes are required to the environmental offsets policy to ensure that offsets do not contribute to environmental decline.
- Offsets should only be acceptable:
  - when they are applied in accordance with the recommended National Environmental Standards for matters of national environmental significance;
  - where an offset plan demonstrates that they can be ecologically feasible; and
  - where outcomes from offsets can be properly monitored and measured.
- In the longer term, offsets should be enshrined in law. The EPBC Act should require:
  - offsets to be ecologically feasible and deliver genuine restoration in areas of highest priority
  - a decision-maker accept offsets that encourage restoration offsets to enable a net gain for the environment to be delivered before the impact occurs
  - a public register of offsets for all Commonwealth, State or Territory offsets sites, designated as a national interest environmental dataset.

Throughout our engagement on the Samuel Review, EDO has outlined best practice offsetting principles that should underpin national environmental standards for offsetting.

In our view, the regulation of offsets by the Commonwealth should continue to be considered as part of the Government’s response to the Samuel review, including the development of a robust, legally enforceable national standard for offsets.

**Recommendations:**

- The biodiversity market framework should not include biodiversity offsetting as a component.
- The regulation of biodiversity offsets by the Commonwealth should be considered as part of the Government’s response to the Samuel review, including the development and implementation of a robust best practice national standard for biodiversity offsetting.

3. **Administration of the biodiversity market framework**

In addition to the threshold issue of whether the proposed market is intended to provide biodiversity offsets, another critical consideration relates to the administration and governance of the scheme. The Fact Sheet: A Market for Biodiversity (Fact Sheet) states:

> The Clean Energy Regulator (the regulator) would administer many elements of the framework. The Department of Climate Change, Energy, the Environment and Water would be responsible for ongoing policy development

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It is not clear which Minister will administer the relevant legislation, but it is assumed that it will be the Minister for the Environment and Water (given the Scheme was announced jointly by the Prime Minister and Minister for the Environment and Water, and the stated role of the Department of Climate Change, Energy, the Environment and Water (DCCEEW)). (We note the previous proposal had an agricultural land focus and was introduced by the former Minister for Agriculture).

Given intention of the Scheme is to drive improvement in biodiversity, we support the Minister for the Environment and Water administering the Scheme.

Our understanding is that the Clean Energy Regulator has been proposed to administer the biodiversity market framework, based on the (assumed) similarities between the proposed biodiversity market framework and the carbon market framework established under the Carbon Credits (Carbon Farming Initiative) Act 2011. The ABSM Bill was modelled off the Carbon Credits (Carbon Farming Initiative) Act 2011.

We have concerns with both:

- Basing the biodiversity market framework on the Carbon Credits (Carbon Farming Initiative) Act 2011; and
- The proposal that the Clean Energy Regulator (CER) administer the Scheme.

Using the Carbon Credits (Carbon Farming Initiative) Act 2011 framework

There are likely to be key differences in the carbon market framework established under the Carbon Credits (Carbon Farming Initiative) Act 2011 and the biodiversity market framework. For example:

- The carbon market framework operates primarily as an offsets scheme, whereas it is unclear if the biodiversity market framework will have an offsetting component as noted; and,
- To date, the primary buyer of Australian Carbon Credit Units (ACCUs) issued under the Carbon Credits (Carbon Farming Initiative) Act 2011 has been the Australian government.\(^\text{10}\) It is unclear what role the Government will have in purchasing biodiversity certificates.

While the Carbon Credits (Carbon Farming Initiative) Act 2011 model could provide a starting point for developing the biodiversity market framework, the legislative framework must be fit-for-purpose and meet the needs of the unique biodiversity market.

The Clean Energy Regulator

The CER was set up for the primary purpose of carrying out functions under climate change laws.\(^\text{11}\) While the CER can exercise functions conferred on it by any other Commonwealth law,\(^\text{12}\) its current expertise and day-to-day functions relate exclusively to the regulation of climate and

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\(^{10}\) For example, in 2021, the largest buyer of ACCUs was the Australian Government through the Clean Energy Regulator’s ERF, followed by voluntary corporate buyers and state and territory governments, and liable entities under the Australian Government’s Safeguard Mechanism that have exceeded their emissions baselines, see Clean Energy Regulator, Quarterly Carbon Market Reports available at http://www.cleanenergyregulator.gov.au/InfHub/Markets/Pages/Quarterly-Carbon-Market-Reports.aspx

\(^{11}\) Clean Energy Regulator Act 2011, s 12(a).

\(^{12}\) Clean Energy Regulator Act 2011, s 12(b).
energy laws. We are concerned that the CER does not have the relevant expertise to administer the framework, which is intended to deliver biodiversity conservation and restoration outcomes. Again, our view is that the regulator must have expertise to administer a scheme specifically tailored to address the unique needs of the biodiversity market; and the CER may not be the best agency to do this.

The integrity of the carbon offsets market has been brought into serious question, for example in terms of accountability, transparency, accuracy, value for money, and achievement of actual carbon abatement under certain methods. Earlier this year, experts raised concerns that particular methods established under the Carbon Credits (Carbon Farming Initiative) Act 2011, including the Human-induced Regeneration (HIR) method and Avoided Deforestation method, do not meet offsets integrity standards. We note the carbon market is currently under review (Chubb Review). It would be inappropriate to add a biodiversity market to the broader CER architecture while the findings of the review are pending and the serious deficiencies have not been addressed.

**Recommendations:**

- The role of the CER’s administrator should be re-evaluated in light of the findings and any reform recommendations of the current Chubb Review.
- If the CER is the preferred administrator of a biodiversity market, there would need to be improvements to ensure accountability, transparency, as well as increased expertise.

4. **Key elements of a scheme to be consulted on**

There are a number of critical elements of a biodiversity market that need to be consulted upon and clearly defined. As noted above, the Factsheet summarises 6 key elements:

- Biodiversity projects which meet the requirements of a biodiversity protocol
- Agreed protocols, endorsed by an Advisory Committee, setting out requirements for a ‘type’ of project
- Biodiversity certificates, issued at the project level, that can be bought and sold
- A public register of projects and certificates
- Provision for expert advice from the Advisory Committee and standards for biodiversity integrity
- A compliance and assurance framework

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13 For example, the CER currently has functions conferred on it by or under the Clean Energy Act 2011; Carbon Credits (Carbon Farming Initiative) Act 2011; National Greenhouse and Energy Reporting Act 2007; Renewable Energy (Electricity) Act 2002; and Australian National Registry of Emissions Units Act 2011.


15 See https://minister.dcceew.gov.au/bowen/media-releases/independent-review-accus
There is not adequate information provided on how these elements of the market would work. Examples of additional critical elements that need consultation and clarification are listed below.

- **Application of the biodiversity market framework**

  The previous legislation proposed a biodiversity market that would be applied to agricultural land. It is not clear in the current proposal what land the scheme would apply to, and how the scheme might potentially apply to different tenure (noting complex considerations and requirements such as additionality – i.e., ensuring stewardship payments are for benefits/activities that would not otherwise have been achieved). As noted above, it is unclear how the market will contribute to strategic biodiversity conservation objectives, rather than just gravitate towards cheaper actions for certificates.

- **Objects of the biodiversity market framework**

  The proposed object to ‘enhance or protect’ in the Fact Sheet needs to be defined. It will be insufficient if it is essentially a ‘no net loss’, as this does not acknowledge current downward trajectories of biodiversity loss, and that improvement is required to halt and reverse this trend. A stronger standard for example would be ‘protect and enhance’. This is also important to ensure the framework is ambitious and drives action above and beyond usual sustainable land practices.

- **Social and cultural benefits**

  Consideration should be given to expanding the scope of the framework to also recognise social and cultural benefits of projects. The Queensland Land Restoration Fund Co-benefits Standard16 is one example of a framework that recognises biodiversity values as well as socio-economic and First Nations co-benefits. The expansion of the framework to cover social and cultural benefits should be done in consultation with experts and First Nations Peoples.

- **Biodiversity integrity standards**

  In general, we agree that the biodiversity market framework should adopt and apply biodiversity integrity standards. These must be science-based, meet best practice, deliver genuine improvements for biodiversity.

  Biodiversity integrity standards must address, at a minimum, the following key issues:

  - **Enhance biodiversity outcomes**: As outlined above, the biodiversity market framework should be underpinned by the key objective to protect and enhance biodiversity. This could be reflected in the biodiversity integrity standards.
  - **Strategic alignment**: Standards must require the integration of projects with a regionalised strategic biodiversity plan and contribute to connecting habitat (i.e., avoid isolated land patches being fenced and forgotten).
  - **Permanence**: Standards must require that biodiversity benefits are achieved and retained for set time periods, preferably permanently. Permanent impacts must be offset by in perpetuity conservation and management.
  - ** Additionality**: Standards must require that recognised biodiversity gains are additional to what would otherwise occur (i.e. gains are unlikely to occur in the ordinary course of

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events). In particular, the framework must ensure that conservation and restoration is required beyond what would be excepted as part of regular sustainable land management practices. For example, to what extent could simple fencing and weeding activities (as described in the Fact Sheet) be considered additional to what would be expected as usual sustainable land management practices?

- **Verifiable outcomes**: Standards must require that outcomes are able to be verified; supported by clear and convincing evidence; and that any estimate, projection or assumption would be reasonably certain.

- **Risk**

It is unclear how the scheme proposes to manage risk. For example, what happens if area being managed pursuant to a biodiversity certificate is impacted by bushfire and biodiversity benefits are not realised? The *Carbon Credits (Carbon Farming Initiative) Act 2011* includes mechanisms that require project proponents to:

- notify the regulator of any natural disturbance or conduct of a person that reverses the removal of carbon dioxide from the atmosphere; and,
- take reasonable steps to mitigate the effect of the natural disturbance or conduct, or relinquish credit units.

A similar process was proposed under the ABSM Bill to address any ‘reversal of biodiversity outcome’.

The government should confirm that the proposed biodiversity market scheme will include similar mechanisms for addressing the risk of natural disturbances or other conduct from impacting on the biodiversity outcomes recognised by biodiversity certificates, and that ecological shifts related to a changing climate are incorporated into project designs and strategic outcomes.

- **Monitoring, reporting, compliance and enforcement**

Given the serious integrity, transparency and outcomes issues currently under review in relation to the carbon offsets market, any new market for biodiversity must have a robust, comprehensive and transparent framework for monitoring, reporting, compliance and enforcement. It is not clear how this will work, whether the CER has relevant expertise, and how the scheme will ensure that biodiversity outcomes and co-benefits are actually being delivered.

**Recommendations:**

The proposed biodiversity market framework must address the following key issues:

- Application of the biodiversity market framework
- Objects of the biodiversity market framework
- Social and cultural benefits
- Biodiversity integrity standards
- Risk
- Monitoring, reporting, compliance and enforcement

More detailed information about these key elements should be provided in additional materials put out for public consultation.