

Do biodiversity offsets offer a viable and valuable basis for compensating the unavoidable impacts of development?

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Why is a mainstream investor interested?

- **Insight is the asset manager for Halifax Bank Of Scotland (HBOS).**
- **£71.8 bn under management as at 31/3/04.**
300 pension funds and some 2m retail investors.
- **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.**

Why is a mainstream investor interested in biodiversity?



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- **11.7% of Insight's investments in equities and substantial bonds holdings are in oil & gas, mining & minerals and utilities companies.**

Biodiversity poses a risk and opportunity for these sectors:

- **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.**

Biodiversity benchmark

Scored 22 extractive and utility companies' management of biodiversity on 27 issues under:

- Governance structures
- Policy and strategy
- Management and implementation
- Assurance and reporting

Table 1	Description	Mining and Minerals	Oil and Gas	Utilities
Engaged and actively managing	<ul style="list-style-type: none"> Biodiversity is acknowledged as a potential business risk and opportunity Biodiversity risk has been formally assessed Specific related policy commitments and management tools in place 	Anglo American BHP Billiton Rio Tinto RMC	BG Group BP Shell	Northumbrian Water + Severn Trent United Utilities
Aware and mobilising	<ul style="list-style-type: none"> Awareness demonstrated through acknowledgement of company's impact on biodiversity, its inclusion within certain aspects of risk management and/or passing reference within policy documents No explicit supporting biodiversity strategy or guidance for staff. 	Lonmin+ Xstrata+	Cairn Energy* Premier Oil+ Venture*	Centrica Kelda+ National Grid Transco
Early stages	<ul style="list-style-type: none"> Little or no evidence that potential risks relating to biodiversity have been formally assessed No publicly expressed rationale provided for any conclusion that biodiversity is not a business risk No explicit policy or management stance on biodiversity 	Antofagasta+ Aquarius Platinum*	Soco* Tullow*	
Notes	* Companies with an annual turnover that is less than £100 million + Companies with an annual turnover between £100 million and £1,000 million (source Hoovers.com)			

Biodiversity offsets: lateral thinking

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"Never, ever, think outside the box."

Experience with voluntary biodiversity offsets



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- **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. That is a high aspiration - but, like our other aspirations, we're determined to show that we can deliver’. (April 2000)
 - **Rio Tinto:** considering offset in policy and experience in practice
- **Site-based activities by individual companies:**
 - **on-site:** EIA, mitigation, rehabilitation, restoration in concession contracts, host government agreements, production supply agreements
 - **off-site:** some specific biodiversity offset activities
- **Groups of companies:** EBI; ICMM

Energy and Biodiversity Initiative and offset

www.theebi.org



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BP, Chevron Texaco, Shell, Statoil
CI, FFI, Smithsonian, IUCN, TNC

Offset:

- “Measure to help achieve **no net loss of biodiversity** at a project site.”
- “... Compensate for negative impacts.”

Objective:

- “By the end of the project, the status of biodiversity in that particular area is comparatively *as well off* overall as before the project began.

Expectation:

- Should be the **minimum** expected standard by which all companies operate.

Different from positive contribution:

- “Benefiting biodiversity conservation” means leaving an area's biodiversity in *better* condition than before the activity began: “net conservation *benefits*”.

The business case for offsets



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- **License to operate:** “Social contract”; access to sites; good relations with communities and regulators; “favoured partner” status.
- **Flexibility:** Change location, scale of rehabilitation
Third party implementation; Trade
- **Efficiency:** Pick most cost-effective option - use flexibility
- **Effectiveness:** Maximise biodiversity value - select area
Bang for buck; good PR; motivation for company and employees.

The business case for offsets



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2010 target (CBD COP and WSSD):

“to achieve by 2010 a significant reduction in the current rate of loss of biological diversity”.

UK International Biodiversity Delivery Plan, May 2004:

"Work ... to substantially increase, by 2008, public and private financial investments in integrated biodiversity activity via partnerships with the financial and business sectors".

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 tradable?
- **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.

Where do we go from here?



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Conclusions

- Potential conservation and business benefits from offsets merit further consideration.
- 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 guidelines

Next steps

- Your views welcome as we finalise the Insight/IUCN report.
- Further debate at World Conservation Forum, Bangkok, November.
- Insight and Forest Trends are developing pilot projects.

Contact details



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