

Government policies on biodiversity offsets

Why is this important?

- *The number of countries with government policies on biodiversity offsets has doubled in the past fifteen years.*

- *For industry, these policies represent both opportunities (such as the chance to develop flagship social and environmental projects) and risks (such as potential delays and costs).*

What are government offset policies?

Biodiversity offsets are schemes designed to compensate for adverse impacts of development projects on biodiversity, after the mitigation hierarchy has been fully applied to avoid, minimise and restore potential impacts. Government environmental policies (including legislation) increasingly refer to biodiversity offsets as a desired or required tool.

Which countries have government offset policies?

Over 100 countries have, are developing, or are starting to discuss national government policies that require, encourage, guide or enable the use of offsets. Figure 1 shows the rise in the number of countries with such policies. Offset policies first emerged in the late 1950s but have shown a rapid increase since 2001. Government offset policies now exist across the world (Figure 2), in both developed and developing countries. Some countries also have sub-national offset policies, notably the well-developed provincial or state policies in Australia, Canada and South Africa.

The European Union has a cross-national policy on offsets, within the existing EU Habitat and Birds Directives, and is now designing a broader EU-wide policy on use of the mitigation hierarchy. A number of EU countries, such as Austria, France and Germany, are already implementing broader national offsets policies.

Most recently, South American countries, such as Colombia, have led the way in developing new national policies on offsets.

At a glance

Government offset policies represent both opportunities and risks for industry

A strategic approach can ensure that opportunities are realised and risks effectively managed. This might involve proactively seeking offset sites ahead of time, and involving stakeholders early to design offsets based on project-specific risks.

Key considerations in developing offsets include:

- Outcomes must be additional to existing government initiatives such as protected areas.
- Stakeholder involvement is crucial to success.
- Offsets should be viewed as 'fair exchange' for impacts by regulators and stakeholders.

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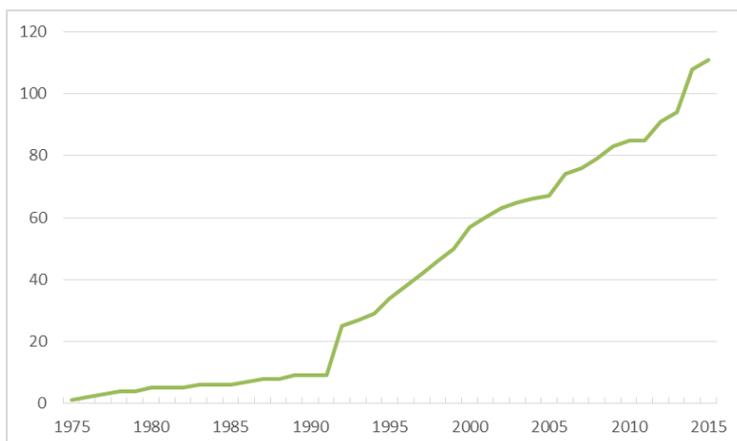


Figure 1: Rise in number of countries that have, are developing, or are starting to discuss national government policies that require, encourage, guide, suggest, or enable the use of offsets.

Our research identified over 100 countries that have, or are developing, national-level policies around biodiversity offsets. The general trend is that both the development and implementation of government offsets policies are fast increasing. This trend looks set to continue. Application of the mitigation hierarchy, including biodiversity offsets, is increasingly seen as good practice for balancing development and conservation goals. Growth in offset policies will also likely be driven by the expanding adoption of national natural capital accounting, and for developing countries by the [World Bank's new Environmental and Social Safeguards Framework](#).

What do government offset policies require

Government biodiversity offset policies share an overall aim - to ensure compensation for unavoidable impacts on biodiversity by development projects.

Policies vary greatly, though, in their detailed objectives and implementation arrangements, as detailed in the [ICMM/IUCN Independent Report on Biodiversity Offsets](#).

Offsets may be regulatory or voluntary; focus on supporting existing national biodiversity conservation goals or allow a more ad-hoc

approach; strictly 'like for like' (e.g. the same habitat type as the impact) or permitting 'trading up' (e.g. to habitat of higher conservation value). Sectoral coverage and the threshold size of projects requiring offsets also vary. Policies typically (but not always) may require:

1. Application of the mitigation hierarchy before offsets are considered.
2. An assessment of residual impacts and the offset needed to provide equivalent biodiversity gains.
3. Application of rules adjusting offset size to account for time delays, or offsets in different habitats than those impacted.
4. Site-based compensation actions (i.e. an offset) and sometimes contribution to supporting conservation actions (e.g. research).

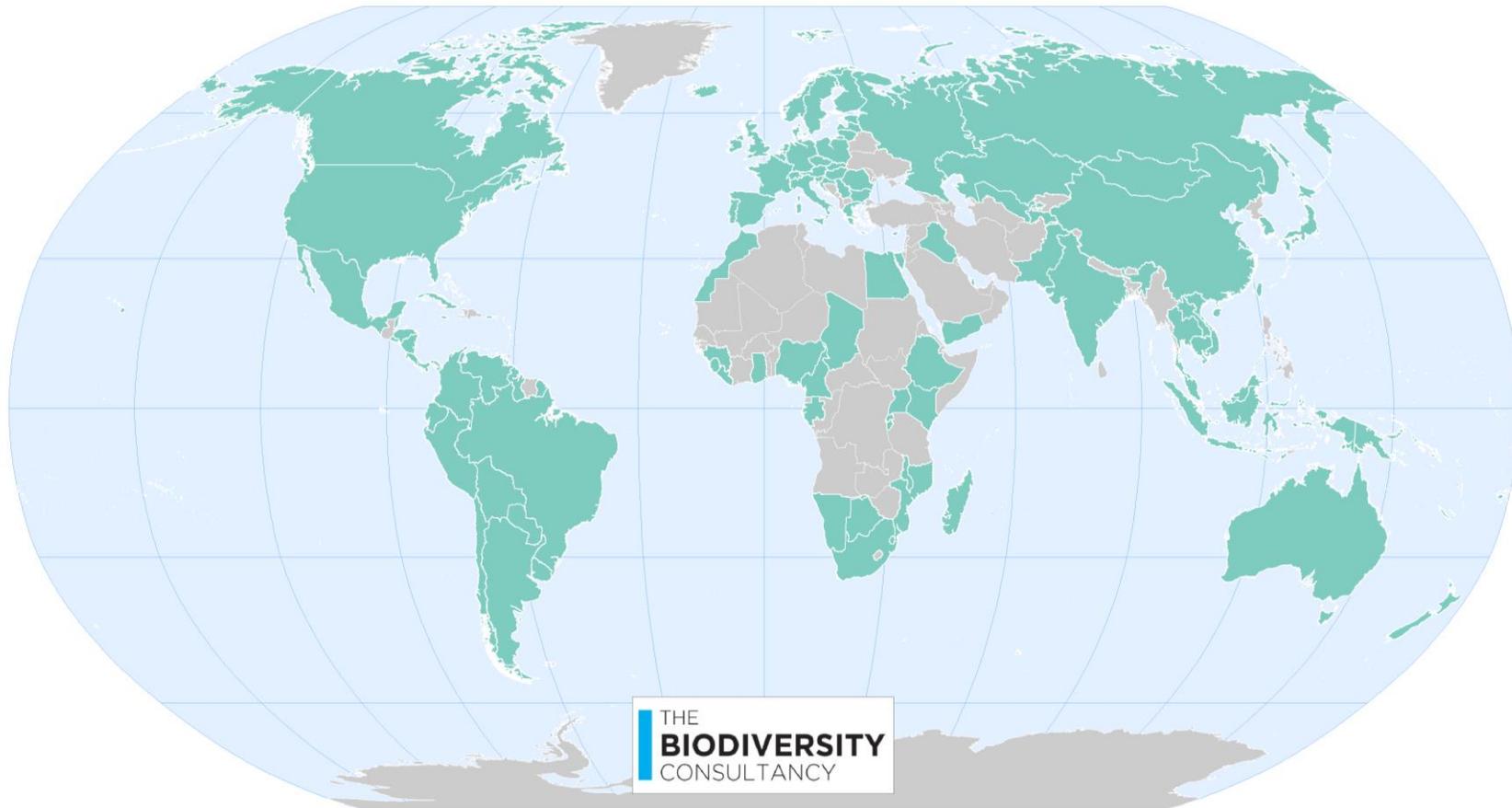
A range of implementation mechanisms are in use for biodiversity offsets, including:

1. Purchase of credits from conservation banks (e.g., USA, Canada, Australia).
2. Establishment of conservation easements (e.g., USA, Australia).
3. Custom-built offsets implemented with or by third parties such as NGOs or private companies (e.g. Madagascar).
4. Payment into government conservation funds (e.g. Brazil's funds supporting protected areas conservation).

Not all countries with national offset policies have yet developed clear guidance or implementation mechanisms. Some countries (e.g. Peru) are piloting policy to test approaches on particular projects before full implementation is rolled out.

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Figure 2: Countries that have, are developing, or starting to discuss national government policies that require, encourage, guide or enable the use of offsets¹.



¹The EU Habitats Directive includes an offset mechanism covering the entire EU. Some EU countries are also implementing or developing offset policies with broader application. While TBC's research endeavoured to capture all available information on government offsets policies globally, there may be omissions and this map should not be regarded as definitive. Please contact TBC for further details.

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Opportunities and risks for industry?

The proliferation of offset policies has introduced new risks and opportunities for industry:

Opportunities

- *Conversion of offsets into flagship environmental and social projects*, within an overall corporate biodiversity strategy that aims to enhance social license to operate and goes beyond legislative requirements to demonstrate a company's values.
- *A level playing field for industry*, if clear policies and implementation mechanisms exist.
- *Competitive advantage* through custom-built offsets and the potential to inform or even shape government approaches, if clear policies and guidance do not exist.
- *Recovery of some costs of the initial offset investment through sale of biodiversity and ecosystem service credits*. For example, the carbon in a forest offset could potentially be sold as credits, or excess biodiversity credits of an offset could be sold to other developers. Care must, however, be taken to ensure additionality.

Risks

- Uncertainties and high transaction costs of custom-built offsets in the face of a lack of clear, standardised implementation mechanisms.
- Project delays where offsets are required, yet guidance, mechanisms for implementation and stakeholder consensus are lacking.
- Increased costs and delays of planning and implementing offsets, and of project approval owing to regulator and stakeholder review of offset proposals.
- Increased costs and delays caused by multiple, differing offset requirements from governments, financial institutions and company policies (e.g. on which species, type of metrics, or definition of no net loss). Matching these up can be complicated and a one size fits all offset may not be possible.
- Insufficient offset sites/land area for offsets: emerging government policies usually have not calculated the predicted land area required for offsets. In Australia, this is leading to competition for offset sites and even some biodiversity land speculation.
- Stakeholder concerns over 'land-grabbing': some stakeholders could see offsets as a form of corporate land-grab.

Table 1: Some examples of strategic approaches which can help manage risks posed by Government offset policies

Issue	Risk	Management strategy
Meeting multiple offset policy requirements (legislation, PS6, etc.)	Costs and delays in meeting all requirements. Costs of multiple offset programmes: some companies are needing to pay into <i>in lieu</i> fee funds and also to do NPI site-based offsets	Design and negotiate in advance to fold all requirements into a single offset site
Lack of guidance and implementation mechanisms	Delays due to lack of off-the-shelf offsets; varying stakeholder expectations	Design offsets based on company-specific risks by involving stakeholders in customised design of offsets
Lack of offset sites	Delays in selection of offset sites; costs due to competition for sites	Proactively seek offset sites ahead of time, and turn surplus into conservation banks to sell credits to other developers

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Offsets can be flagship environmental and social projects of an integrated biodiversity strategy

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The Biodiversity Consultancy works together with industry leading clients to achieve an ecologically sustainable basis for development by tackling complex biodiversity challenges and by supporting positive conservation outcomes. Contact us to find out how we can help you to:

- Identify and avoid risks before they occur
- Deliver projects on time and at cost
- Transform environmental challenges into opportunities
- Demonstrate shared value to stakeholders
- Build a positive brand and sustainable business

+44 (0)1223 366238

enquiries@thebiodiversityconsultancy.com

www.thebiodiversityconsultancy.com

The Biodiversity Consultancy Ltd

3E King's Parade

Cambridge, CB2 1SJ, UK

Registered Number: 06413116

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