

New Forests Submission to DCCEEW Consultation on “A Market for Biodiversity” Factsheet

16 September 2022

Introduction to New Forests

New Forests is a global investment manager of nature-based real assets and natural capital strategies, with AUD 8.7 billion in assets under management across 1.1 million hectares of investments. We are the largest forestry investor in Australia, managing hundreds of thousands of hectares of pine and eucalypt plantation assets integrated with conservation and restoration of landscapes. We are headquartered in Sydney with additional offices in Melbourne, Singapore, Tauranga (New Zealand), San Francisco, and Nairobi. Founded in 2005, we manage a diversified portfolio of sustainable timber plantations and conservation areas, carbon and conservation finance projects, agriculture, timber processing and infrastructure. Approximately 200,000 hectares of our global portfolio is under conservation, and we actively undertake reforestation, wetland and riparian zone restoration, and habitat enhancement every year. We aim to generate shared prosperity for our clients and the communities in which we operate and accelerate the transition to a sustainable future.

New Forests’ vision is to see investment in land use and forestry as central to the transition to a sustainable future. To achieve this vision, New Forests’ investment strategies support the role of forests as nature-based solutions, provide sustainable wood fibre for the growing circular bioeconomy, and contribute to the sustainable development of regional economies and rural communities.

New Forests has experience developing and investing in environmental markets across biodiversity and carbon. We have developed biodiversity-based projects in both government regulated and voluntary markets. Our experience includes investing in wetland and stream mitigation banks across multiple states in the United States (as promulgated under the US Clean Water Act) and developing a voluntary biobank called the Malua Biobank in Sabah, Malaysia. We have also made innovative investments in carbon finance for nearly 20 years, including registration of the first plantation forestry ACCU project. More recently, we launched ActivAcre in Tasmania, which seeks to work in partnership with farmers for on-farm forestry, to diversify income across sustainable timber and carbon finance. We also invest in the United States in an innovative carbon forestry strategy, linked to the California government-regulated carbon market, are significant investors in New Zealand including the country’s Emissions Trading System, and invest across Southeast Asia in a high-impact forestry strategy that seeks to deliver climate, community, and biodiversity impact.

Our Support for the Framework – New Opportunities

New Forests is delighted to have been invited to provide our feedback on the DCCEEW biodiversity framework. Thank you for the opportunity to provide our comments based upon our investment experience and views on the evolution of investor demand and opportunity for development of new nature-based products.

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The protection and enhancement of nature is an increasingly important issue for New Forests' institutional investment clients given systemic risks associated with biodiversity collapse and degradation of ecosystem services. New Forests has sought to give our clients exposure to "nature-positive" outcomes through development of innovative investment strategies that specifically target biodiversity outcomes (e.g. impact targets, use of blended finance), integration of carbon markets into investment strategies, and positioning our forestry and agricultural products for increasingly green supply chains and customer demand.

As such, we support the development of a biodiversity markets framework proposed by the Government. New Forests manages extensive landscapes in which we seek to integrate sustainable timber and agricultural production alongside conservation and restoration. As noted above, approximately 20% of our global portfolio is under conservation. In Australia, we manage endangered and threatened species habitat and rare flora and threatened grasslands and work with First Nations to support ecological values of importance to them. The development of a regulated biodiversity market framework in Australia will give New Forests a potentially powerful mechanism by which to drive more capital into nature-positive outcomes on the landscapes we manage and to enhance both financial returns and environmental outcomes.

New Forests believes there are a couple of different ways in which we could apply this framework and the biodiversity project methodologies to be developed by the Government.

1. **Development of biodiversity-rich carbon credits:** There is increasing demand and price premium for carbon credits (e.g. ACCUs, VERs) associated with biodiversity and community benefits. However, carbon prices are generally not yet at a level to support large-scale native reforestation and permanent environmental plantings at commercial returns. Given that New Forests manages investments in which production and conservation/restoration are integrated into the landscape under a single management plan, we see that the biodiversity framework could enable us to pair plantation forestry based ACCUs with certificates from a biodiversity project in the same landscape and potentially receive higher prices. The higher price for an ACCU would thus reflect the multiple climate and ecological values benefits generated from that landscape. The biodiversity framework could potentially enable us to offer farmers another product through our ActiveAcre mixed forestry-agriculture platform.
2. **Development of biodiversity-based products:** The Taskforce for Nature-related Financial Disclosures (TNFD), future government regulation, and consumer expectations will all drive greater transparency and accountability from companies related to the nature impact of their supply chains and products. As a result, New Forests believes that the market for "nature-sponsorship" investment models will grow in the coming years. As companies reduce their impact of their business operations, they will also want to contribute to restoration of nature. This means that asset managers of landscapes like New Forests will need credible, science-based, and auditable means of providing that nature-benefit to companies and investors alike.

Areas for Further Consideration for Commercial Success

New Forests appreciates the Government's approach to this framework. We understand that the Government seeks to take a flexible approach that can be adapted over time as the use of biodiversity instruments and market demand evolves. We think it is sensible to start with development of protocols and a governance framework including monitoring and verification. These initial elements will help an investor like New Forests start to prepare and hone our nature-positive strategy, which is evolving as the TNFD requirements also emerge.

However, there are four points we would urge the Government to consider in seeking expert advice and putting together guidelines for the market framework:

1. **Unitising a project-based biodiversity certificate into an annualised stream:** Our understanding from reading the Fact Sheet on the framework is that one certificate would be issued per biodiversity project, and the certificate would present the characteristics of the project in a standardised way. While the standardisation is critical, we think that this project-based certificate approach will be commercially unsuccessful. To commercialise the biodiversity project, we would need a way to unitise the project-based biodiversity certificate so that the values it represents could be sold to a variety of buyers (for example, to pair one ACCU with one “biodiversity unit” or sell a “biodiversity unit” on its own as part of a nature-sponsorship business model) and to have those biodiversity units be made available over time.

One option would be to structure a biodiversity unit (Biodiversity Unit) so that a project could generate a volume of additional Biodiversity Units each year and allow the holder of the project certificate to then be issued with a commensurate volume of Biodiversity Units. Biodiversity Units would then become the tradeable unit and be able to be taken to market each year. Over time a significant market of Biodiversity Unit trade could be expected to emerge and enable high impact Biodiversity Units to attract a premium, allocating financial resources to flora and fauna most at risk. New Forests’ concern is that a one-off biodiversity certificate issued and monetised for project development will not facilitate long-term biodiversity enhancement as it will focus on short term interventions that are unlikely to be maintained over time.

In the past New Forests has experimented with how to unitise biodiversity-based projects. For example, the Malua Biobank, which we described in the link provided in the first section above, was a first-of-its-kind voluntary market project launched around 2009. As there were no methodologies available, New Forests based the Malua Biobank on US mitigation banking. To create a biodiversity product, New Forests took a simple area-based approach to unitisation. The Malua Biobank involved the protection and restoration of a 34,000-hectare rainforest area. We decided to sell “Biodiversity Conservation Certificates”, with each BCC equivalent to 100 square metres of the project area; this resulted in 3.4 million BCCs, which were accounted for in an external registry.

We would appreciate some guidance from the Government on ways this unitisation might be achieved or whether the Government would find it acceptable for market participants to experiment with different approaches and see what finds traction in the market.

2. **Clarity on the role of additionality in this framework:** The concept of additionality in the carbon markets means that the project would not have happened but for the carbon credits and is typically tested using investment analysis, barrier analysis, and market penetration analysis. New Forests believes that this concept of additionality is not appropriate for biodiversity, as very little investment is taking place today in “nature-positive” activities. Today, protection and enhancement of ecological values beyond what is required by law by land managers like New Forests is done because it is the responsible thing to do but typically comes at a financial cost borne by our investment clients. We have multiple examples of this across our portfolio that we can share with Government. Moreover, there is typically no financial incentive for those biodiversity-related activities to continue after we exit following an asset sale. Because of this, we believe it is important that the biodiversity framework recognise and reward the continuation of biodiversity-related projects already taking place (in accordance with protocols to be developed by the Government) as well as new projects to be commenced.
3. **Aligning type of certificates issued with their timeframes and outcomes:** Some land-based biodiversity projects will involve primarily upfront expenses and require relatively shorter-term investment (e.g. native vegetation reestablishment) while other projects will require greater ongoing maintenance and intervention

(e.g. predator control, nesting boxes, fencing and fire management). We support the development of multiple facts-based protocols for biodiversity protection and enhancement that can receive differentiated certificates over varying time horizons. Having varying certificates issues by methodology will enable market differentiation for different types of biodiversity units, as described in point 1 above, which may allow those with long-term cost profiles to have aligned long-term funding commitments rather than just one-off payments. This approach could also help avoid project developers chasing only those types of interventions that have immediate rewards. Ecological processes are by their nature slow and may take hundreds of years to reach a desired state.

- 4. Ensure diversity of biodiversity captured by methodologies:** While there is much focus in Australia on endangered iconic marsupial species (e.g. Koalas), we believe it is critical that methodologies provide support for both individual species and for threatened and endangered ecological areas. These methodologies should have consideration for both terrestrial and aquatic/marine diversity across the spectrum of plants, animals, algae and fungi. Having a common framework to assess multi-species ecological impacts will be important to ensure that certificates are issued to meaningful and demonstratable long-term change.

Integrity and Inclusion

New Forests understands that the Government will engage an expert advisory committee to advise on biodiversity integrity standards. We support a robust approach to integrity to support the credibility and growth of biodiversity markets. At the same time, we urge Government to bring a range of perspectives across academia, NGO, and business sectors into that advisory committee to:

- help create a balance between simplicity of approach and scientific granularity in assessing biodiversity benefits and creating project protocols;
- create a framework around what claims can be made by buyers of biodiversity certificates in order to embed demand-side integrity into this framework from program inception;
- build on existing frameworks to measure biodiversity where possible and reasonable to do so (e.g. Accounting for Nature); and
- support the role of technology in monitoring and verification to reduce costs and improve market access for a variety of landowners.

From an integrity point of view, New Forests believes this framework should not be positioned as an “offset” but as a platform to channel much-needed financing into credible biodiversity-enhancing activities managed by many different kinds of landholders including private sector, NGOs, and First Nations.

Conclusion

New Forests applauds the Australian Government for taking the first step to establishing a biodiversity market framework. Australia has the potential to be world-leading in this regard. This framework comes at the right time give the increasing focus by companies and investors on how to contribute to the Global Goal for Nature and the finalisation of the TNFD in 2023. New Forests would be happy to discuss the ideas in this consultation further. We can be contacted at impact-team@newforests.com.au.