



Summary of Public Hearing for Biodiversity Credits Market Monitoring

12 September 2023

Overview

IPART has been appointed to monitor the NSW biodiversity credits market over a 3-year period. As part of this role, we held a public hearing on 12 September 2023 to hear views from stakeholders on how the market is functioning. Around 50 stakeholders attended our public hearing, including credits buyers, credits sellers, brokers and consultants, representatives from local councils and peak bodies, as well as representatives from the Department of Planning and Environment and the Biodiversity Conservation Trust.

This paper presents a summary of the key matters discussed at the public hearing. Our public hearing was divided into three main sessions, each with a short presentation by a member of the IPART staff, followed by open discussion and Q&A:

- Session A – Demand in the market
- Session B – Supply in the market
- Session C – Trading and governance

Demand in the market

Table 1 Key themes discussed in Session A - Demand in the market

Theme	Summary of public hearing discussion
Transparency around internal offset transactions	<ul style="list-style-type: none"> • Stakeholders reflected that within the transaction databases, transactions relating to internal offsets (i.e. credits that a participant generates to offset its own obligations) cannot be distinguished from market transactions between 2 separate parties. <ul style="list-style-type: none"> - Some stakeholders considered that internal offset transactions may be priced lower than market transactions (since they cover management costs only) and their inclusion within the overall dataset can skew pricing data.

IPART acknowledges the Traditional Custodians of the lands where we work and live. We pay respect to Elders both past and present. We recognise the unique cultural and spiritual relationship and celebrate the contributions of First Nations peoples.

- However, some stakeholders stated that they have their credits valued by an external, independent Accredited Assessor to establish an appropriate market price for internal transfer.
- Stakeholders suggested that the Department of Planning and Environment could provide disaggregated data or identify which trades within the register relate to internal offsets, so that better pricing data is available to all participants.

Major buyers in the market	<ul style="list-style-type: none"> • Stakeholders commented that the complexity of the credits market (and the offsets scheme more generally) created difficulties for smaller, local buyers to secure offsets. • One stakeholder reflected that major infrastructure projects have greater resources to navigate the complexities of the market, relative to smaller developers. • Stakeholders felt that major development projects drive demand in the market, and that sellers are often unable (or not incentivised) to accommodate demand from smaller buyers. • Some stakeholders stated that the Credit Supply Taskforce and others focus on procuring credits for major projects.
Impact of assumed species presence on demand	<ul style="list-style-type: none"> • One stakeholder stated that developers assume presence of species, which is reflected in the credits they seek, and noted that this could result in an excess of demand (which cannot necessarily be met with supply, where it is not possible to assume species are present).
Impact of location-based nature of credits on demand	<ul style="list-style-type: none"> • One stakeholder commented that the location-based nature of biodiversity credits adds additional complexity to the market, and spreads demand across a larger geographical area. • Complexities for major projects running between State borders was also raised as a factor with potential impact upon local demand.
Impact of price volatility on buyers	<ul style="list-style-type: none"> • One stakeholder felt that price spikes and volatility in the market posed a challenge to smoothly running a business and contributed to uncertainty in the market more generally. • Others felt that price fluctuation is a standard feature of a normal market, even in equilibrium.

Supply in the market

Table 2 Key themes discussed in Session B - Supply in the market

Theme	Summary of public hearing discussion
Biodiversity within local areas	<ul style="list-style-type: none"> • Some councils claim that they experience a net loss of biodiversity within their local government areas (LGAs), because offsets for biodiversity loss within their LGA often occur in areas outside of the LGA. • Attendees attributed this in part to the lack of supply of credits close by to development areas, as well as the presence of the Biodiversity Conservation Trust, which offers a 'convenient' alternative to seeking credits directly from the market. • Stakeholders suggested that the NSW Government could adopt a location-based approach in working with councils to increase the supply of credits within their LGAs. • Some stakeholders considered that credits supply within strategic corridors should be prioritised. • Some stakeholders also suggested there should be an uplift for credits within strategic corridors, given the importance of their biodiversity value relative to disaggregated sites.
Impact of the Credits Supply Taskforce	<ul style="list-style-type: none"> • Some stakeholders felt that the Credits Supply Taskforce provided more certainty to landholders selling in-demand credits, relative to the market and the Biodiversity Conservation Trust. • Some credits sellers reported that the Credit Supply Taskforce's reverse auction process is lengthy and often takes several months before an offer is confirmed, during which credits are effectively unavailable to other buyers in the market. • One stakeholder reflected on the complexity of the paperwork involved when selling credits to the Credits Supply Taskforce.

Impact of shortfall payments on credit sellers' incentives to sell lower-value credits	<ul style="list-style-type: none"> • Credits sellers reflected that shortfall payments provide a disincentive for selling their lower-value credits, even if they are highly in-demand, until after their total fund deposit is met. • Stakeholders reflected that there may be limited purpose for shortfall payments in practice.
Impact of climatic and weather conditions on the number of credits generated at a site	<ul style="list-style-type: none"> • One stakeholder reflected on the additionality element that landholders must consider when seeking to bring species credits to the market, noting that in some climatic or weather conditions, a site may be assessed to generate fewer species credits than in other conditions. • Stakeholders discussed that recent changes to the Biodiversity Assessment Methodology (BAM) regarding dry weather benchmarks for ecosystem credits were positive and useful.
Impact of 20% discount under the Biodiversity Assessment Method on incentives for councils to supply credits	<ul style="list-style-type: none"> • One stakeholder explained that under the BAM, a 20% 'discount' is applied to credits generated by council, which results in councils' credits being more expensive to meet the total fund deposit.
Barriers to generating credits via revegetation	<ul style="list-style-type: none"> • Many stakeholders reflected on there being few incentives to generate credits via land revegetation. <ul style="list-style-type: none"> – Credits that are generated through revegetation can be less competitive in the market because fewer credits are generated per hectare of land. One stakeholder explained that this was because there is a lower calculated probability of the revegetated land meeting the benchmark of 'high quality' ecosystems, which is considered when assessing the credits that can be generated from a site. • One stakeholder reported receiving conflicting information from the Department of Planning and Environment and from Accredited Assessors on acceptable revegetation strategies, stating that greater transparency is needed to improve landholder confidence.
Opportunity cost of offset sites on credit prices	<ul style="list-style-type: none"> • Stakeholders considered that credit prices should reflect (and ideally, exceed) the lost opportunity cost of the offset site for sellers to have an incentive to sell credits.
Minimum lot size requirements	<ul style="list-style-type: none"> • Minimum lot size requirements were raised as a barrier to entry for credits sellers, with stakeholders noting that more flexibility would enable more sellers to capitalise on small pockets of biodiversity. Minimum lot size requirements in urban and coastal areas were discussed as being of particular concern. • Some stakeholders felt that aggregating multiple land parcels into a Biodiversity Stewardship Agreement could facilitate greater supply in the market.
Entry costs for credits sellers	<ul style="list-style-type: none"> • Many stakeholders reflected on the high entry costs for sellers to enter the market, with some stating it could cost in order of a hundred thousand dollars to complete the establishment of a Biodiversity Stewardship Agreement. This included costs for obtaining tax and legal advice. • Another stakeholder noted that it can cost \$100,000 to establish a site and that it took 2 years to establish their first Biodiversity Stewardship Agreement. However, they noted that their second Agreement took 6-8 months, which they were pleasantly surprised by.
In-perpetuity stewardship agreements	<ul style="list-style-type: none"> • Some stakeholders considered that there needs to be a compelling reason to lock up parcels of land in-perpetuity. However, others commented that this was important to ensure market integrity and should not be changed. • One stakeholder commented that selling land on or around a Biodiversity Stewardship Agreement site can be expensive and difficult to do, requiring consultation with Accredited Assessors and lawyers.

Trading and governance

Table 3 Key themes discussed in Session C – Trading and governance

Theme	Summary of public hearing discussion
Transparency and accessibility of market data and reporting	<ul style="list-style-type: none"> • Stakeholders felt that market data is currently complex, disaggregated and difficult to navigate. Lengthy datasets provided in Excel format were described as convoluted and difficult to use and caused time delays.

	<ul style="list-style-type: none">• Overall, stakeholders felt that improving the reporting and accessibility of the data was important to improving efficiency in the market.• One stakeholder reflected on the application of natural accounts in other contexts, noting that the use of a similar framework within the biodiversity offsets scheme could assist utilities in capitalising some operational costs
Market complexity	<ul style="list-style-type: none">• One stakeholder reflected on the number and complexity of credit types available in the market and noted that while some degree of complexity is needed to uphold biodiversity value, there may be opportunities to balance this with the need for market efficiency and supply capacity.• One stakeholder felt the processes for transacting credits were lengthy and bureaucratic, citing an example from an identification verification procedure.• Another stakeholder considered that the credit transfer process was not easy, manual, and sometimes takes a few attempts to get the paperwork right
Standard legal contracts	<ul style="list-style-type: none">• One stakeholder noted that legal practitioners may not have sufficient experience in the Scheme and that having standard legal contracts around transactions may improve efficiency and make it simpler.
Regulation of brokers and their activities	<ul style="list-style-type: none">• One stakeholder noted that broker activity in the NSW credits market is unregulated, relative to similar schemes in other jurisdictions.• Greater regulation of broker activity was viewed as beneficial in avoiding conflicts of interest and improving participant's confidence in the market.