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Economic incentives for biodiversity conservation in Australia
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A key underlying driver of biodiversity loss is missing or weak economic incentives[1]. Penalties for damaging biodiversity are too low, while the rewards for conserving or restoring biodiversity are insufficient to attract private capital at scale. Government subsidies and infrastructure investment often make matters worse, by stimulating economic activity that is harmful to the environment.

There are many ways to 'internalise' the value of biodiversity in economic decisions:

1. Land, water and marine **resource users** can be required to pay for adverse environmental impacts, incentivised to adopt lower-impact production practices, or encouraged to conserve or restore biodiversity directly (e.g. private land conservation agreements);
2. **Corporate buyers** of primary products, as well as **consumers**, can be encouraged to favour vendors who offer verified biodiversity-friendly goods and services;
3. **Financial services** can reduce risks, increase returns and incentivise responsible production by offering preferential terms to clients who adopt biodiversity-friendly practices;
4. **Governments** can ensure that fiscal policy and public spending are aligned with conservation objectives and do not encourage environmentally harmful activities.

Voluntary approaches to biodiversity conservation can help test and validate innovative approaches and recognise leadership. However, voluntary initiatives typically fail to recruit industry laggards, who cause most environmental damage. Moreover, theory and practice show that relying entirely on voluntary programs fails to secure widespread change, as long as environmental costs and benefits remain 'external' to markets (uncompensated). Governments need to establish policy frameworks that put a value on biodiversity and engage the majority if not all economic actors.

Australia has good experience using market-based environmental incentives, notably:

- carbon offsets (e.g. carbon farming under the Emissions Reduction Fund);
- biodiversity offsets including native vegetation credit trading,
- freshwater management (e.g. water buybacks and reef credits);
- Best Management Practices and voluntary sustainability certification in agriculture and aquaculture, wild-caught fisheries, native and plantation forestry, mining and metals, etc;
- natural resource user fees including hunting and fishing licenses, entry fees and/or bed/dive taxes to raise revenue for protected areas, and eco-tourism operations.

Australia is well placed to mobilise private capital and business capacity to invest in biodiversity conservation and restoration at scale, analogous to the accelerating transition to clean energy. A pre-requisite however is political commitment to inform the public, build consensus and overcome resistance from vested interests. A **policy agenda** to strengthen economic incentives for biodiversity conservation in Australia could have multiple components and stages, as outlined below:

[1] Barbier, E. B., Folke, C., Burgess, J. C. (2019). *Paradise Lost? The Ecological Economics of Biodiversity*. United Kingdom: Taylor & Francis.

1. Set standards for incentives

- Regulatory authorities and other stakeholders need to be able to assess the quality of incentive measures against objective criteria, including evidence that:
    - the Polluter Pays Principle is adhered to, or reasons are given for not following it;
    - environmental outcomes are measured appropriately, if possible in economic terms;
    - the social distribution of environmental costs and benefits is fair and equitable;
    - cost-effectiveness is prioritised and payments are conditional on outcomes; and
    - biodiversity offset and restoration projects align with strategic/bioregional plans.

2. Monitoring and disclosure

- Corporate monitoring and disclosure of environmental impacts provides a powerful incentive for mitigation while building community trust.
- Disclosure of biodiversity impacts may initially be voluntary but should become mandatory for companies with annual turnover above a fixed (and declining) threshold.
- Disclosure requirements can be introduced gradually, starting with companies above a certain size, in sectors known to have larger biodiversity footprints, and subsequently extended.
- Metrics for biodiversity monitoring and disclosure should cover negative impacts as well as restoration outcomes. Metrics must be capable of assessing direct (on-site) as well as indirect impacts (e.g. raw material supplies). Metrics for direct, on-site impacts can build on existing methods for offsets, while for indirect impacts a phased approach may be appropriate:
    - Initially, entities could be required to confirm that raw material supplies are legal;
    - Disclosure may be expanded to encompass all direct habitat disturbance, legal or not;
    - Expanded again to disclose the total land area (or volume of marine products) represented in supply chains; and
    - Expanded again to cover waste generated through consumption of products.
- Analogous monitoring and reporting tools can be developed for the financial services industry.

3. Payments and markets

- Governments should establish policy settings that harness market forces for biodiversity, by:
    - establishing dedicated trust funds to stimulate private supply of conservation services;
    - setting mandatory standards and accreditation systems for offsets/conservation;
    - filling knowledge and methodological gaps (e.g. corporate biodiversity metrics); and
    - buying down risk and/or prices paid by private purchasers of biodiversity outcomes.
- A key priority is to expand responsibility for adverse impacts on biodiversity loss. Liability for environmental damage should continue to cover large projects (e.g. resources, infrastructure) but should be progressively broadened to cover agriculture, fisheries and forestry.
- As with disclosure requirements, mitigation obligations should apply initially to an entity's own/direct operations and be extended later to cover indirect impacts (e.g. supply chains).
- Offset and restoration/conservation obligations should cover wild-capture fishing and ocean-based aquaculture, including harm to non-target species and damage to marine habitats.
- Private agents who deliver new and additional biodiversity benefits should be compensated for their costs, including a profit margin as appropriate. Government payments can be used on their own (analogous to the ERF) or designed to match/stimulate private funding for conservation.
- Deemed compliance and rewards for positive contributions may be linked to existing industry BMP schemes and sustainability/certification standards, as long as these include meaningful biodiversity criteria and are subject to independent verification.
- Strictly targeted and timebound trade measures may be required (e.g. border adjustments) to reduce adverse impacts on the competitiveness of some Australian producers and exporters.

4. Complementary measures

- Other opportunities to shift incentives in favour of biodiversity conservation include reform of environmentally harmful subsidies, promoting more sustainable diets, reducing food loss and waste, expanding protected areas (which limits the opportunities and therefore the incentives facing farmers, fishers, foresters, miners, etc), and feral animal control.
- These could be addressed through a recommendation in the Final Report for a comprehensive assessment of incentive measures for biodiversity to be undertaken.