

ESG Flash Note

Biodiversity credits: regulation & corporate commitments will be key to boost demand

On September 2nd, we hosted **Holger Schmid**, Principal at NatureFinance and Biodiversity Credits Expert, and **David Hill**, Founder of the UK Environment Bank and UK Net Gain Expert to discuss the “true” potential for biodiversity credits to accelerate biodiversity financing. A replay of the event will be available for two weeks, please contact your J.P. Morgan representative to get access.

Our key takeaways include: 1) The biodiversity market is still nascent but its growth potential may be significant; 2) Boosting corporate demand will require a compelling business case, new regulations, and robust market standards; and 3) In the UK, the Net Gain Regulation could help shape a broader biodiversity credit market for the corporate sector.

#1. The biodiversity credit market is still nascent. A handful of OTC deals have been announced so far, with significant variations between the price of biodiversity units, ranging from \$2 to \$100 according to our guest speakers, with a separate analysis by the Biodiversity Credit Alliance pointing to prices reaching up to [\\$700](#) per unit. According to Mr. Schmid, this primarily reflects the lack of standardized methodology for valuing positive biodiversity outcomes. He highlighted three main differences in the way project developers currently estimate biodiversity benefits, including 1) a focus on *direct* biodiversity impacts (E.g. diversity of species) vs. *indirect* drivers of biodiversity loss (E.g. deforestation and pollution), 2) the use of composite indicators vs. single-metrics to measure biodiversity impacts, and 3) the reliance on a static vs. dynamic baseline to assess additionality.

#2. The growth potential of the biodiversity credit market could be significant. The World Economic Forum (WEF) and McKinsey recently [estimated](#) global demand for biodiversity credits could reach between \$1-7bn by 2030, and \$6-180bn by 2050. The adoption of the Global Biodiversity Framework (GBF) by over 190 countries in December 2022 was an important milestone according to our guest speakers, recognizing for the first time the role of biodiversity credits in financing nature restoration & conservation. As we [highlighted](#) in our report on biodiversity, this has already [resulted](#) in the first global definition of a biodiversity credit (“a certificate that represents a measured and evidence-based unit of positive biodiversity outcome that is durable and additional to what would have otherwise occurred”), and will likely lead to further initiatives to set market standards and trading mechanisms, as well new policies at the national-level.

#3. Unlocking corporate demand for biodiversity credits requires establishing a compelling business case. While Mr. Schmid and Mr. Hill expect regulation to be the main driver of demand for biodiversity credits, they also emphasized other reasons why companies may be purchasing biodiversity credits, including gaining market shares from “conscious consumers” and securing sustainable supply chains. This is consistent with the analysis from the [WEF](#),

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which identified four use cases for biodiversity credits by corporates, including 1) Securing ecosystem services on which their activities rely on (E.g. hotels purchasing biodiversity credits to maintain surrounding protected areas); 2) Contributing to nature recovery beyond their own impacts; 3) Offering products that allow consumers to buy nature improvements; and 4) Taking responsibility for unmitigated biodiversity impacts wherever regulations do not exist. Our guest speakers expect the food & beverage, agribusiness, construction, infrastructure, and utilities sectors may become large buyers of biodiversity credits over time.

#4. TNFD could accelerate demand by incentivizing companies to set biodiversity-related commitments. TNFD provides a framework for companies to assess their dependencies and impacts on nature, and set nature-related commitments, which may include the purchase of biodiversity credits. It also provides a framework for financial institutions to conduct nature due diligence on their investees. Our guest speakers highlighted that a mandatory adoption of TNFD by national jurisdictions could be a significant catalyst to accelerate corporate action, echoing [our view](#) that the integration of TNFD into ISSB will be the ultimate driver of global adoption.

#5. In the UK, the Net Gain regulation could help shape a broader biodiversity credit market for the corporate sector. The regulation requires project developers to implement mandatory biodiversity net gain (BNG) plans targeting at least a 10% improvement. BNG is measured using the DEFRA metric, which considers 1) the size of the land, 2) the type and strategic significance of the habitat, and 3) the condition of the habitat. Developers can achieve BNG by 1) creating biodiversity onsite, 2) creating biodiversity onsite and off-site, or as a last resort 3) purchase statutory biodiversity credits from the government. Interestingly, Mr. Hill mentioned that large offsite mitigation schemes can be more efficient than onsite schemes to drive positive biodiversity outcomes. While he sees limited demand for BNG, he expects that the regulation will help shape a broader biodiversity credit market for the corporate sector, which currently suffers from a lack of demand.

J.P. Morgan Biodiversity Call Series - Upcoming Webinars:

- Investing in Sustainable & Resilient Agriculture: Exploring scalable solutions with two corporates and one investor - Sept. 10th @16:00 UKT, 17:00 CEST, 11:00 EST. [Book seat](#)
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- Biodiversity Reloaded - V. Martin Heriz & N. de la Gorce, Jul. 2024 ([link](#))
- The adoption of CSDDD heightens sustainability litigation risks for corporates in the EU - N. de la Gorce, Jun. 2024 ([link](#))
- TNFD: A step change for nature reporting, ISSB could prove the ultimate boost for global adoption - N. de la Gorce, Sep. 2023 ([link](#))
- EUDR: Takeaways & Replay from our event with the EU Commission - N. de la Gorce, Mar. 2023 ([link](#))
- Sourcing for Good: Taking stock of progress towards deforestation-free supply chains in our European Food/HPC coverage - N. de la Gorce & C. Pannuti, Mar. 2023 ([link](#))
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