Global markets must learn to price and value biodiversity and ecosystem services

While ecological balance is one of the key pillars of sustainable development, global financial markets have yet to come to grips with pricing and valuing biodiversity and ecosystem services.

"Only when we understand the tangible and material economic benefit of these eco-system services will the market-place begin to internalise these impacts in its decision making"

Introducing the open debate on "The Natural Dividend: Financing Ecosystem Services," moderator Richard Burrett, Head of Sustainability, Group Public Affairs with ABN AMRO Bank N.V., said that while the business world had an effect on ecosystems, it also relied on their regulatory services (such as climate, flood control and waste treatment) and their provisioning services (such as fresh water and food).

"These are services for which no price has historically been paid, but their degradation comes at a significant cost," said Mr Burrett.

"Only when we understand the tangible and material economic benefit of these ecosystem services will the marketplace begin to internalise these impacts in its decision-making," he said.

Risk of market exclusion is very real

Commenting on whether biodiversity was a risk or an opportunity to financial organisations, Annelisa Grigg, Director for Corporate Affairs, Flora and Fauna International, said it was not just a risk to project finance, but also to fund management, trade finance, corporate loans and investment banking.

Investment returns could be affected by a number of factors, including: access to land (development permits and community consents to operate could be affected by a company's poor handling of biodiversity and ecosystem services issues); security of supply (as ecosystem services decline, raw materials will become more expensive and less available); and access to markets (this could be restricted through a failure to meet major customer demands for sustainably sourced products).

"The risk of market exclusion is very real, and growing across a range of industry sectors," said Ms Grigg.

Risk management must prepare for external shocks

Simon Petley, CEO of EnviroMarket, said regulators internationally were looking at the issue of direct and indirect degradation of ecosystems, particularly where the "supply of nature" was important for agriculture and tourism.

"If nature stops supplying the services, businesses will take an expense hit on the bottom line," said Mr Petley.

Risk management included looking at alternative sources of supply, and being prepared for external shocks if natural services were lost.

Government needs to facilitate environmental services transactions

Speaking as an institutional investor, Bob Welsh, CEO of VicSuper, said an organisation could make money with biodiversity offsets in either a voluntary market or a regulated market – if such a market existed.

An investor could purchase a habitat, restore it if it had been degraded, and then manage it. The habitat's biodiversity benefits or offsets provided an offset service, and a fee could be charged for establishing the offset service and managing it in perpetuity.

"Biodiversity offsets could become part of a global market if we had a common metric," said Mr Welsh.

But markets did not generally value the service provided by ecosystems, so the assistance of governments was needed to create institutions that would enable transactions in environmental services to take place.

A major barrier to incorporating environmental issues into investment decisions was short-term investment measurement timeframes.