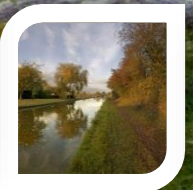


The Business Case for Investing in Our Natural Assets

Peter Young
Chair, VNP Business Interest Group



The Business Case for Investing in Our Natural Assets

This presentation will

- Set the scene – recent business and government context
- An example of future investment options

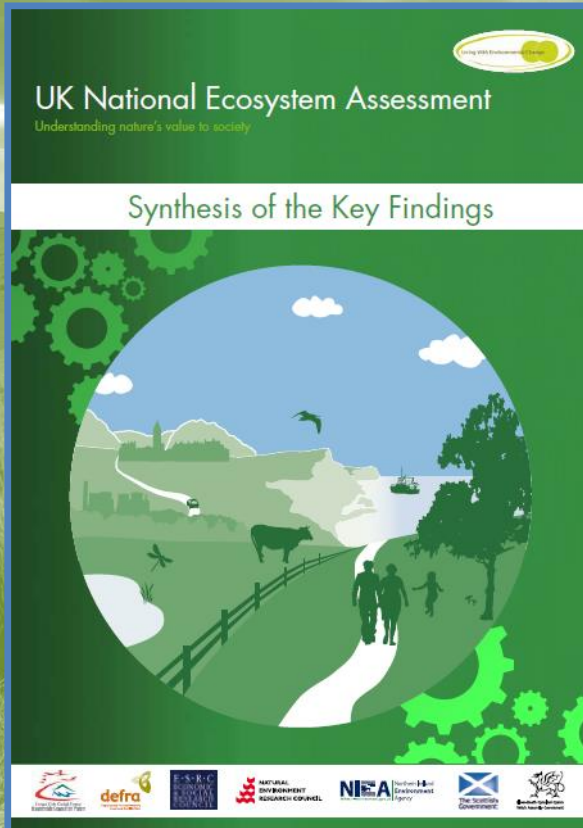
Then we will discuss five themes:

- 1. The business case for ambitious natural capital policy
- 2. Improving natural capital through policy integration
- 3. A natural capital investment strategy
- 4. Policy and corporate decision making
- 5. What next for institutional arrangements?



Recent government policy context

National Ecosystem Assessment (UK-NEA)



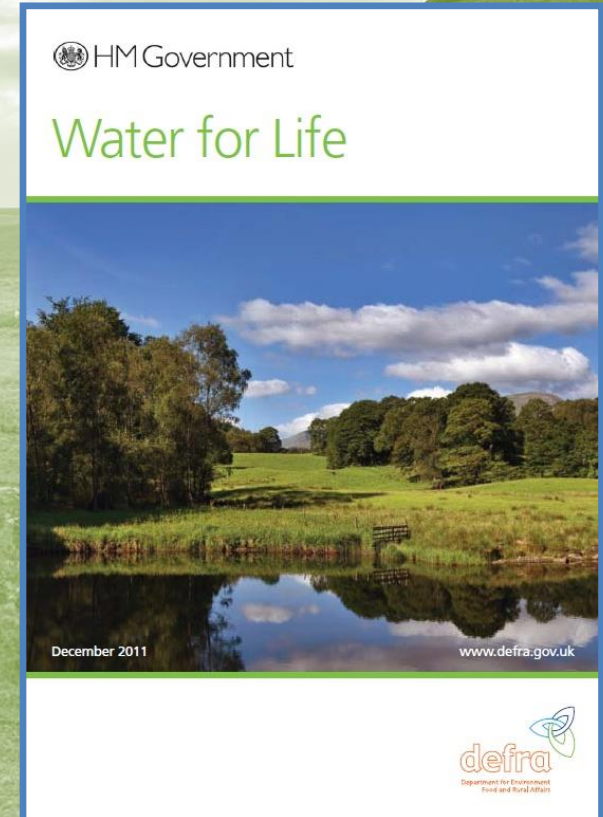
“Applying ecosystem service valuation across the UK”

Natural Environment White Paper



“Aims to mainstream the value of nature across our society”

Water White Paper

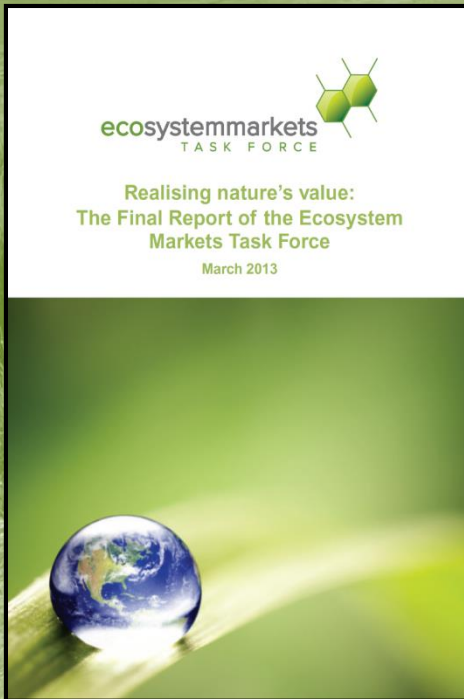


“A vision for future water management in which water is valued as the precious and finite resource it is”

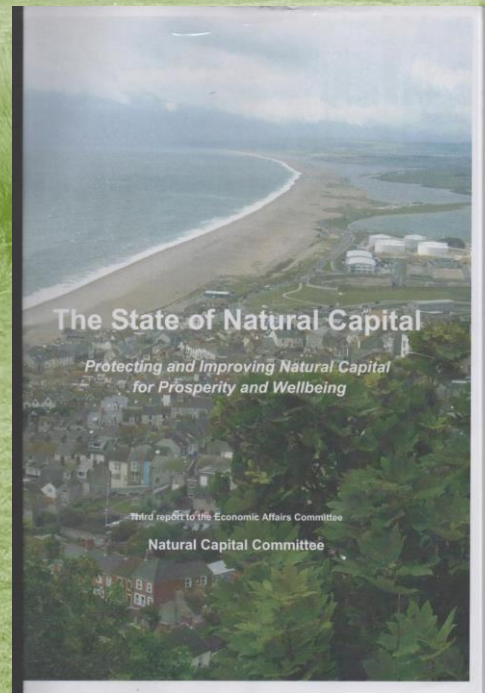
Recent business and government context

- The Natural Environment White Paper set up two important fora:

**EMTF – Business Led
Reported 2013**

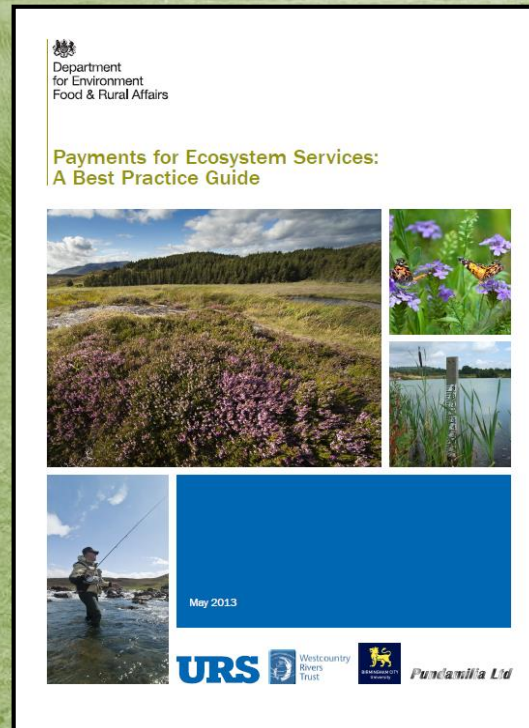


**Natural Capital Committee
Reports 2013 - 2015**



Current Business and Government Initiatives

- Defra – 25 year biodiversity plan
- Defra – 25 year food and farming plan
- New Natural Capital Committee for 5 years +?
- Corporate Natural Capital Accounting
- Natural Capital Protocol
- Emerging PES Schemes



Current State of Business and Natural Capital

- All companies have a dependency and reliance on natural capital.
- Businesses increasingly aware of risks - poorly managed natural systems & unmitigated shocks. They need:
 - An accessible knowledge base underpinned by high quality research; and
 - An incentivising government framework to adopt more sustainable business practices.
- Some businesses engaged but many find it too complex.
- Smart regulation and new markets in ecosystem services will better reflect natural assets in prices and decisions.
- An enabling policy framework will facilitate action to improve the UK's natural capital, which will enhance prospects for long-term sustainable economic growth.



Why Now and How might this change Investment Options?

- “Nearly two thirds of the services provided to humankind are found to be in decline worldwide” - Millennium Ecosystem Assessment 2005
- The benefits we derive from natural capital are at risk – WWF 2014
- “By not managing our natural capital assets well, we are essentially eroding their performance capabilities” – NCC 2013
- Looking at all decisions across development, health and business the risk of progressive and serious depletion of natural systems and biodiversity continues to increase.
- Cost of soil degradation is £1.2bn/year (Eng&Wales)
- The NEA showed how big the changes in investment might be.....



Why ecosystem service valuation matters

Best option

World Markets Scenario

Increased intensification of natural resource use to maximise market values



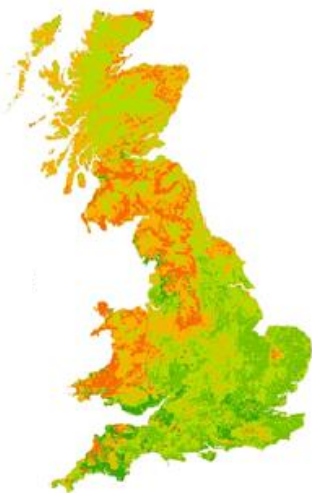
Market value gain
+ £420 million per annum
relative to the current baseline

Change in agricultural values (FGM £/ha/yr)



Nature at Work Scenario

Sustainable use of natural resources to maximise net ecosystem service values



Market value loss
- £510 million per annum
relative to the current baseline

Why ecosystem service valuation matters

Best option



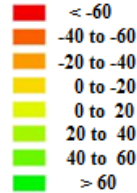
World Markets Scenario
 eased intensification of
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Market value gain
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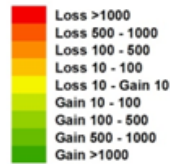
Change in agricultural values (FGM £/ha/yr)



Change in GHG emission values (£/ha/yr)



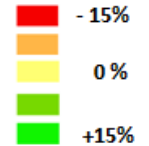
Change in recreation value (£'000/5km cell/yr)



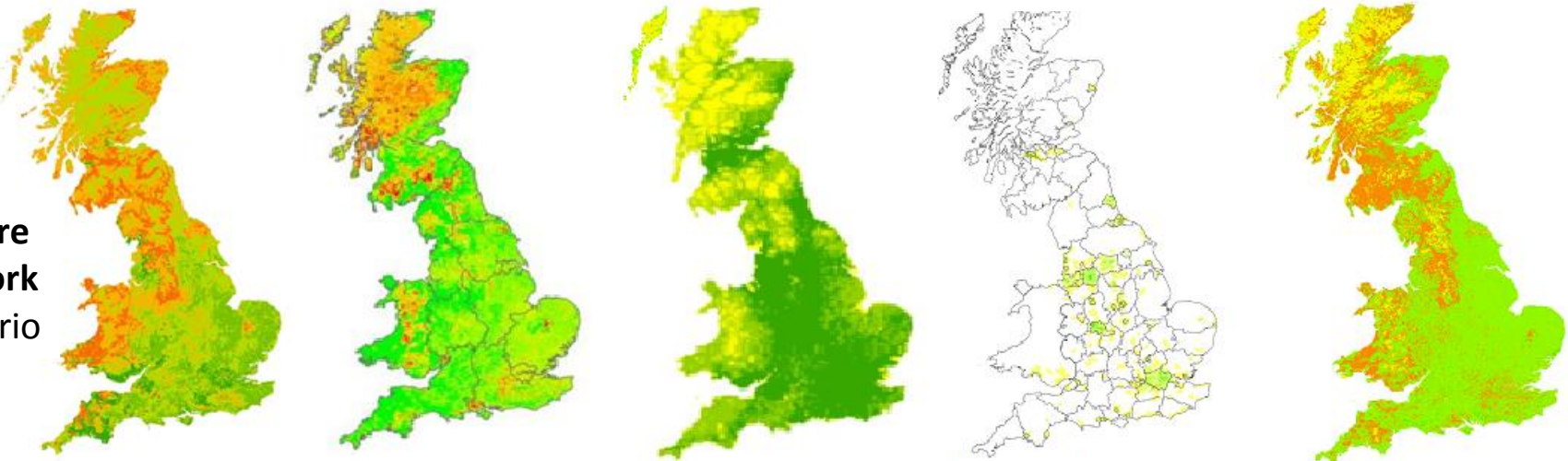
Change in urban greenspace values (£/household/yr)



Biodiversity index: Change in general bird diversity (%)



Nature at Work Scenario



Why ecosystem service valuation matters

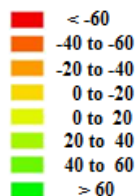
World Markets Scenario



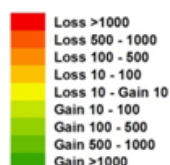
Change in agricultural values (FGM £/ha/yr)



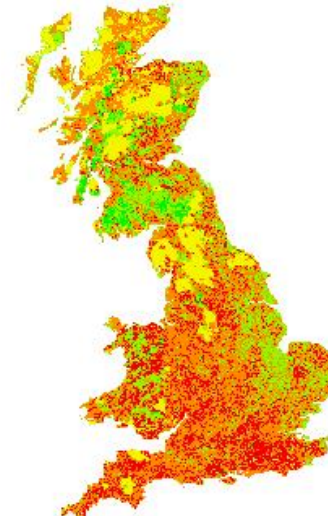
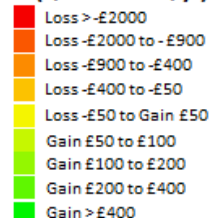
Change in GHG emission values (£/ha/yr)



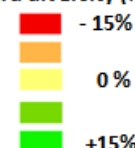
Change in recreation value (£'000/5km cell/yr)



Change in urban greenspace values (£/household/yr)

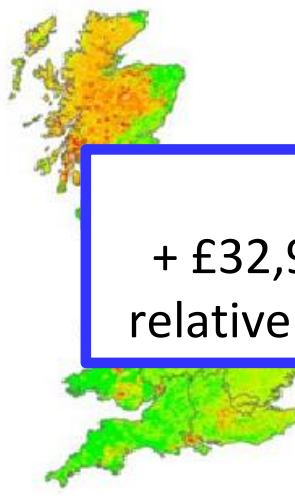


Biodiversity index: Change in general bird diversity (%)



Net value loss
 - £20,600 million per annum
 relative to the current baseline

Nature at Work Scenario



Net value gain
 + £32,900 million per annum
 relative to the current baseline

The business case for ambitious natural capital policy (1)

- **Natural capital improvements will strengthen the UK's resilience and wellbeing, improving business competitiveness and risk management.**

Businesses use natural capital to describe all natural resources that provide goods and services of value. These goods and services benefits include the provision of healthy air, clean water, food, timber and opportunities for recreation as well as the regulation of flood risk and climate. Any business case for natural capital improvements starts with assessing the benefits of these goods and services. But some reasons for protecting and restoring the natural environment are not captured in natural capital arguments, and businesses may choose to act for more altruistic or reputational reasons.



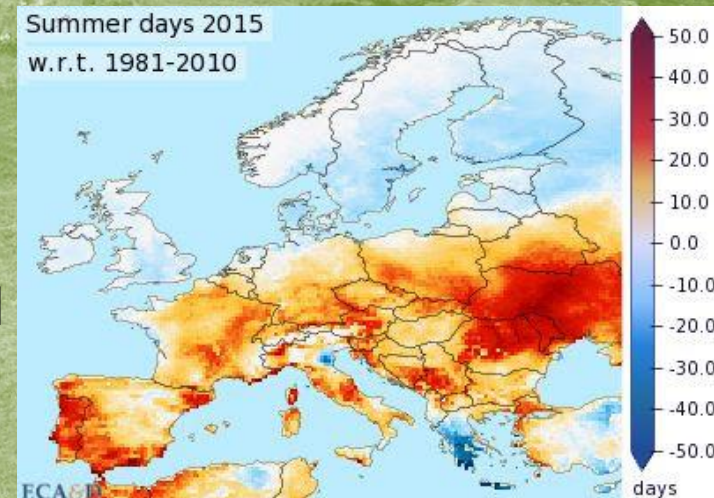
The business case for ambitious natural capital policy (2)

- Understanding natural capital reveals deep business reliance on goods and services that nature provides: for products and supply chains; from profits to health.
- The interdependency of economic and urban development, job creation and the natural world means natural capital policy has broad economic, security and social implications.
- The UK will derive significant economic benefits from maintaining and improving its natural assets:
 - English green space access, £2.1bn averted health costs
 - Natural coastal defences - £1.5bn/year
 - Optimum woodland planting c £550m/year
- Natural capital projects can also provide excellent business investment opportunities.
- Business can manage risk more effectively using natural capital and will benefit in terms of resilience and competitiveness – in long term.



Improving natural capital through policy integration (1)

- A joined up natural capital approach offers a route to greater efficiencies and cost savings for both government and business.
- Better integration between different policy areas could help improve natural capital and other connected objectives in a more cost-effective way eg agriculture, water supply and flood risk reduction:
 - £100bn from taxes and bills will be spent in next 15 years on businesses delivering water supply, flood protection and in agriculture.
 - Procuring integrated solutions will deliver more value, and
 - Avoid current antagonistic spending from deploying individual budgets.
- Similar opportunities exist in health and social care, major infrastructure development and coastal defences.
- Integrate with climate change adaptation.
- Climate change is a key business risk and will exacerbate natural environment pressures and dependencies.



Improving natural capital through policy integration (2)

WALLASEA ISLAND WILD COAST PROJECT

A unique collaboration between the RSPB and Crossrail, more than three million tonnes of earth tunnelled from beneath London's streets is transforming Wallasea Island into the largest habitat creation project of its type in Europe. Once complete, Wallasea will provide a wetland haven for thousands of migratory birds and become one of the UK's most innovative flood defence systems.

Benefits:

- Reduced flood risk management costs
- Employment creation
- Avoided disruption to navigation
- Additional carbon sink of 4 t/ha/year.
- Tourism and leisure industry growth
- Biodiversity enhancement
- New protected species habitats



A natural capital investment strategy

- Funding natural capital projects with long-term returns is a key barrier.
- Success often depends on quality of Government regulations:
- Tools are taxes, regulation, procurement and developer compensation,
- Embed maintaining/repairing natural capital in licences,
- Support to the farming and fishing communities, eg EU policies, must reward activities that improve land and the marine natural assets.
- Nurture new markets for ecosystem services and biodiversity – EMTF identified >£1bn in biodiversity offsetting/habitat banking alone.
- Payments for Ecosystem Services (PES):
 - Beneficiaries of an environmental service pay those who maintain the ecosystem that provides it.
 - PES schemes outside water sector has been without any regulatory support.
- Need new sources of capital to invest eg:
 - The Natural Capital Financing Facility from the European Investment Bank
 - Privatised Green Investment Bank
 - Business needs reduced policy risk



Policy and corporate decision making

- **Measuring reliance on natural resources enables better public policy and business decision making and supports economic growth**
- **Providing measurement tools to assess the value of nature helps:**
 - **ensure that the benefits and services are counted;**
 - **develop business cases for investment;**
 - **allocate resources for maintenance of existing services; and**
 - **avoid risks of natural capital depletion.**
- **Measurement, valuation and accounting of nature are all urgent needs to measure business reliance on natural resources and the efficiency with which they use them.**
- **Government National Accounts (2020)**
- **ONS role in natural capital data**
- **Key developments to be discussed further are:**
 - ***Corporate Natural Capital Accounting***
 - ***The Natural Capital Protocol***



What next for institutional arrangements?

- **Strengthening institutions such as the Natural Capital Committee (NCC) will safeguard the UK's natural capital strategy and signal to business that policies will be consistently steered towards delivering natural capital enhancement.**
- **Business needs the NCC to monitor the state of our natural capital, oversee integration of natural capital metrics in the national accounts by 2020, and help development of markets for ecosystem services.**
- **The 25-year biodiversity and food and farming plans need clear milestones to reverse the loss of their respective natural assets. They must state that the UK's natural capital must be enhanced for the benefit of the economy, business resilience and competitiveness, as well as for wider society and the environment.**



For more information

See your Aldersgate Group report:
“Investing in Our Natural Assets: How
Government Can Support Business Action”
Also contains eight case studies

www.aldersgategroup.org.uk

Thank you

