

Nature markets update



Nature markets are proposed as a key mechanism through which the UK and devolved nations can remediate biodiversity loss and meet targets for nature restoration by directing more resources and investment from individuals and organisations into nature-based solutions. The first UK-wide Nature Markets Framework policy paper was published in March 2023. Its anniversary brought a flurry of policy announcements relating to emerging markets for nature-based solutions. Most of this work relates to pan-UK initiatives to standardise and accelerate nature markets, but we also summarise here the current 'state of the market' for regional initiatives including Biodiversity Net Gain (BNG) and nutrient neutrality (NN).

BSI nature markets – overarching principles and framework

Nature markets present multiple challenges compared to other markets; multiple benefits flow from single interventions; private and public goods overlap and; there is confusion over who is entitled to make claims for specific outcomes. However, new units of currency being traded within these markets, such as biodiversity units or carbon dioxide equivalents, involve a transfer of an ownership right that has to be taken on trust. To develop confidence in nature markets, the government announced in March 2023 that it would commission the British Standards Institute (BSI) to develop a suite of nature investment standards (NIS) for the UK.

BSI has now published its consultation paper on the overarching principles and framework for nature markets, known as BSI Flex 701. The paper sets out the high-level principles to which nature markets should comply and offers a useful glossary of terminology. The original focus of BSI Flex 701 was only on the supply of high-integrity units, but engagement with stakeholders made it clear that effective markets would only be possible with equivalent expectations on trading and storing nature credits and the governance of nature markets and nature market operators. This first public consultation is only part of the picture. The government has announced that it will undertake a consultation this summer on the demand-side principles for voluntary carbon and nature markets (see further below), the outcomes of which will influence BSI Flex 701 and BSI's forthcoming standards for biodiversity and natural carbon markets later in 2024.

BSI Flex 701 is intended to be used by market participants, market initiatives such as codes, standards and schemes, registries, and stakeholders in nature markets. The principles are drafted as statements of fact, with notes providing clarification of terms, intent and evidence that may be used to prove compliance with each principle. Principles that will be relevant to all market participants are set out in section four of the document, section five covers sellers, section six purchasers, section seven is registries and section eight covers trading processes.

Two general principles may require more detailed thinking for market participants. Principle 4.7: multiple benefits from nature, requires buyers, sellers and market initiatives to '*recognise that nature is multi-functional, producing a range of benefits... which different stakeholders value in different ways*'. Practically speaking, this means that suppliers might quantify units sold but need to report against the broader environmental impact of the project and that guidance on environmental management is more important than delivering against single metrics. A natural capital account of the area of supply is suggested as one mechanism to achieve this.

The other notable requirement is principle 4.8: Local community engagement, which requires that nature market participants engage transparently with local communities. This Scottish-derived principle is of most relevance to project developers and further detail is offered in the principles for sellers in section five. It is suggested that suppliers of units should undertake '*proportionate engagement with communities in relation to material environmental impacts of management actions to supply units*' (5.6). This includes both positive and negative impacts, and whether provision has been made to share benefits with local communities. For projects in England at least, the emphasis on community engagement may require new approaches to project concept and design.

One further point of note relates to stacking environmental units. Principle 8.3 is clear that stacking is acceptable if there is robust measurement and verification for each type of unit in the stack. Sellers of stacked units must make it clear to buyers of units in the stack that units are being sold in stacks before they are sold, or that re-baselining has taken place to demonstrate the impact of additional management actions. Buyers of stacked units must not claim or imply that they are the sole funder or buying bundled benefits with the units. The consultation goes on to note that research on stacking is ongoing and that BSI Flex 701 will be updated to take account of this – see further below.

People close to the BSI process have expressed surprise that the draft standard is so broad, representing something closer to policy rather than the technical detail that a BSI standard would normally entail. Given the challenge of working across devolved administrations on this topic, the standard represents a remarkable compromise however, and is therefore a useful starting point for the technical work to follow on the different unit types and standardised processes such as MRV within each of them. Views are invited via the BSI website on the proposed use, drafting, certification, intention, and integration of the draft framework.

Natural capital – market framework: engagement paper (Scotland)

Using private finance to help meet Scotland's climate and nature restoration goals is predicted to create an additional 343,000 direct and indirect jobs, adding £17 billion to the Scottish economy in largely rural areas. To unlock this opportunity and following the publication of draft BSI Flex 701, the Scottish government has launched a separate consultation paper on natural capital market development. The paper confirms that Scotland intends to publish a natural capital market framework in 2024, building on, for example, the existing interim principles for responsible investment. The framework will set out expectations on market governance, the benefits of private investment in natural capital, and how this will align with Scotland's emerging policy context.

The consultation is drafted to support the BSI process. Questions are designed to provide the Scottish government with insight on how it can achieve some of the policy approaches indicated in BSI Flex, particularly on governance, community benefit, scaling supply and stimulating demand, and securing multifunctional land use through natural capital investment. In a welcome move for those looking at UK wide markets for natural capital investment, the paper confirms that the Scottish government will be working in partnership with the UK government and the other devolved administrations to build the required infrastructure and collaborative approaches on natural capital markets at the UK level.

Nature Markets Framework update

Defra published an annual [update](#) to the nature markets framework in March 2024, in close collaboration with the devolved administrations but with elements applicable only to England. The paper signals several initiatives to follow in 2024:

- **Addressing barriers to completing carbon audits:** work on common standards for carbon calculators has recently been completed, and this work will support the BSI standards development for natural carbon described above. Defra will also be funding sustainable farming advice from 2024, to help farmers understand the opportunities available to them supported by trusted advisors. Ongoing work through the Food Data Transparency Partnership on making the collection and sharing of farm data as 'easy and beneficial' as possible will be published soon.
- **Market rules on stacking:** research has been commissioned to understand whether a greater degree of stacking should be permitted between nature markets. The research is based on economic and empirical evidence as well as interviews and scenario planning. The report is expected this summer and could be welcomed by project developers looking to diversify and maximise income streams.
- **Tenants:** the Farm Tenancy Forum will be developing further guidance on best practice for managing ecosystem services on tenanted land, to follow the BSI consultation and a further consultation from the government on carbon markets.
- **BSI Nature Investment Standards:** the government has confirmed that it intends to produce guidance with the BSI to make it clear how the BSI Flex 701 framework (described above) for the supply of units is intended to operate. A process for demonstrating conformity with the standards with an appropriate level of oversight is also being developed and will be consulted on shortly. The paper sets out more detail on the proposed biodiversity and natural carbon standards:
 - The BSI biodiversity standard will be designed to drive quality and consistency across the measurement, reporting and verification (MRV) of biodiversity projects in the UK. It will standardise the essential properties, characteristics and indicators of a good scheme. A consultation is expected in late summer 2024.
 - The BSI natural carbon standard consultation will start slightly later in 2024. The standard aims to provide more detail on the process and outcome for robust MRV, establish common criteria for additionality and permanence, and tackle governance.
- **Tax:** following the recently announced extension of agricultural property relief to environmental agreements with public bodies, the government has said it will consider extending agricultural property relief to private codes and schemes accredited under the BSI nature investment standards, once implemented.

- **Voluntary carbon and nature market consultation:** this forthcoming consultation is referred to multiple times during the paper. The government acknowledges that the problems suffered by the 'more mature' carbon markets will be learnt and applied to the BSI NIS programme and that this seminal consultation will be the opportunity to drive confidence into nervous carbon markets. The consultation will look to endorse global integrity initiatives and respond to recommendations from the Climate Change Committee and Net Zero Review. A labelling scheme for UK-generated carbon credits and proposals for governance around the generation of nature market units is also under consideration. The consultation is expected later in 2024.

Market updates

- **Biodiversity Net Gain:** BNG became mandatory for major developments in England on 12 February 2024 and small sites on 2 April 2024. Given that the market for BNG will track the annual development rate, it is expected that the market will be worth between £135 million to £274 million a year. Scotland has just launched a [consultation](#) on its version of a biodiversity metric, noting that the English version has been in use for developments in Scotland and that the National Planning Framework 4 places the biodiversity and climate crises at the heart of the planning system. The consultation is open until 10 May 2024.
- **Nutrient Neutrality (England):** nutrient mitigation is a temporary solution in use until wastewater treatment plants are upgraded, but the government's ambition remains to restore habitat sites impacted by excess nutrients in water. To address this, a new BSI standard for nutrients may be on the cards to drive funding for wider nutrient pollution reduction activities.
- **Carbon:** there were 2,037 projects covering 70,000 hectares registered with the Woodland Carbon Code (WCC) by December 2023, and 240 projects covering 32,000 hectares with the Peatland Carbon Code (PCC) by February 2024. The BSI standards programme should help bring more codes to market and Defra has committed to fund the second phase of development of a Saltmarsh Carbon Code. Both the WCC and PCC are being funded by Scotland's Facility for Investment Ready Nature in Scotland programme to publish standardised contracts for use by sellers and buyers, and also to develop methodologies to assess the biodiversity benefits of carbon projects.
- **Water:** the government published a [guidance paper](#) in March 2024 setting out long and short-term measures for addressing water scarcity issues in the Cambridge city region. Whilst Cambridge presents a high-growth opportunity, it is uniquely constrained by water availability and the Environment Agency has imposed a water neutrality requirement, such that any new development must not increase abstraction, holding up the development of 9,000 homes and 300,000m² of commercial space. The paper is jointly published by DEFRA and DHLUC and brings together local water companies to coordinate the delivery of two major long-term infrastructure projects - a new reservoir and new sewage infrastructure which will both be online by the early 2030s. The paper proposes several short-term measures to bridge the gap, including an innovative new water credits system. This will allow properties installing water-saving devices to create credits that can be purchased by developers, and trials are being undertaken as to how nature-based solutions can provide assured water savings to supply into the credit market. This is one to watch for other water-stressed catchments in England.

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