

Monitoring the NSW biodiversity credits market

9 September 2024

The NSW Government has engaged IPART to monitor the performance of and competition within the biodiversity credits market for 3 years from 2022-23. This is the second year that IPART is reviewing the biodiversity credits market. Our [Terms of Reference](#) asks us to make findings and recommendations with the aim of:



The NSW Government's Biodiversity Offsets Scheme was established in 2016 as a tool to offset the impacts of development and some types of land clearing on biodiversity in New South Wales. The Scheme allows development proponents, including government agencies, to offset their impacts on biodiversity by buying 'biodiversity credits'. These credits are created by landholders and traded in what is referred to as the 'biodiversity credits market'.

Healthy biodiversity is important for the resilience of our natural environment and for the quality of life of current and future generations. Recent studies into the state of NSW's biodiversity have found that only 50% of listed threatened species are expected to survive in 100 years, and just 11% of NSW is secured for permanent protection.¹ By nearly all indicators, NSW biodiversity is declining from 2020 levels, when trends were last reported.

In July 2024, the NSW Government released its NSW Plan for Nature. The Plan outlines a commitment to supporting a functioning biodiversity credits market, and to reforming the Biodiversity Offsets Scheme to improve its biodiversity outcomes. It also signals a shift towards net-positive biodiversity standards and to growing NSW's natural capital markets.²

The NSW Plan for Nature outlines the Government's view that a well-functioning biodiversity credits market is an important tool for addressing unavoidable impacts to biodiversity in NSW. Under this plan, the Government has flagged reforms to the Biodiversity Offsets Scheme to improve its biodiversity outcomes and support a functioning biodiversity credits market. On 15 August the Government also introduced the *Biodiversity Conservation Amendment (Biodiversity Offsets Scheme) Bill 2024*.³ The Bill has been referred to the Legislative Council's Portfolio Committee No. 7 - Planning and Environment for a public inquiry. The Committee will deliver its report on the Bill by 11 October 2024.

IPART acknowledges the Traditional Custodians of the lands where we work and live. We pay respect to Elders both past and present. We recognise the unique cultural and spiritual relationship and celebrate the contributions of First Nations peoples.

Our review of the credits market this year will continue to identify opportunities to improve its performance. We will monitor the market in the context of proposed reforms (once they have been considered as part of the parliamentary process), as well as any progress made against the recommendations from our [2022-23 Annual Report](#). Our aim for this year is to continue monitoring key performance and competition indicators (covering both current and emerging issues), and to hear from stakeholders on market conditions and how future changes to the market can best be navigated.

This paper outlines some analysis of the credits market in 2023-24, but this is not the complete picture of its performance. Over the coming months, we will collect and investigate further information on the credits market before publishing our Annual Report in December 2024.

We want to hear from you

We want to hear from landholders, developers, brokers, accredited assessors and any other interested stakeholders. Questions we would like your input on are:

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Have your say

Your input is critical to our review process. [Make a submission »](#)

We welcome your views on the issues raised above or other matters related to this review. [Register to attend stakeholder workshops »](#)

Our review process



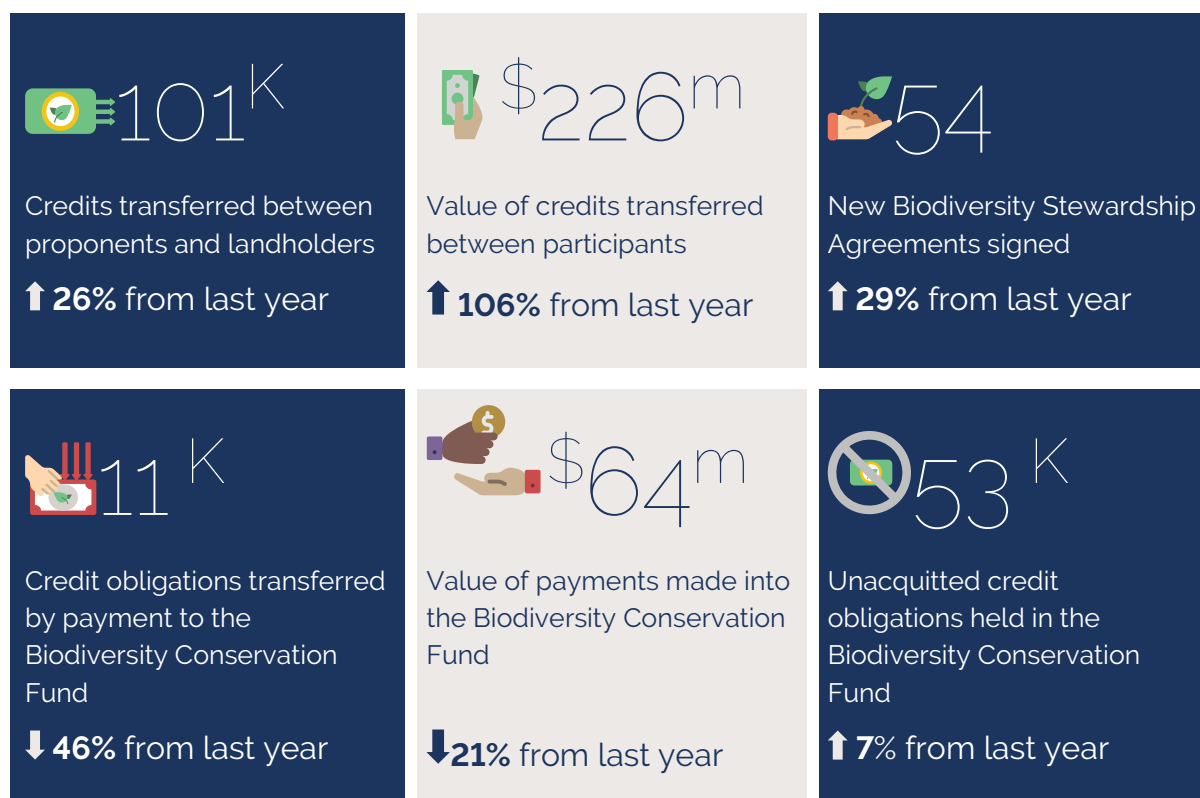
You can have your say on this Discussion Paper by **8 October 2024**. Stakeholders will also have an opportunity to share their views at our consultation workshops in late September 2024. Our Annual Report will be informed by all stakeholder consultation and will be published in December 2024.

1 Market overview for 2023-24

In 2023-24, the biodiversity credits market showed signs of growth in the volume and value of credits traded and witnessed a more diverse range of credits being transferred between proponents and landholders. Market transactions outpaced payments into the Biodiversity Conservation Fund, though Fund balances continued to rise faster than the Biodiversity Conservation Trust’s (the Trust) acquittals.^a

^a An acquittal refers to the instance where the Trust is able to purchase and retire credits that meet the offset obligations of proponents that have paid into the Biodiversity Conservation Fund.

Figure 1.1 Snapshot of the biodiversity credits market in 2023-24



a. "m" refers to millions, "k" refers to thousands.

b. Figures for Biodiversity Stewardship Agreements exclude variations to existing Biodiversity Stewardship Agreements

Source: IPART analysis, using data from the Department of Climate Change, Energy, Environment and Water and Biodiversity Conservation Trust

1.1 2023-24 showed signs of a growing credits market

In 2023-24, growth in the biodiversity credits market was characterised by substantial increases in the:

- number and types of credits transferred in the market
- total value of market transactions
- number of new Biodiversity Stewardship Agreements signed.

We found that around 20,000 more credits were transferred between proponents and landholders in 2023-24 compared to 2022-23 – and the types of credits traded were more varied than before. The market saw a total of 236 market transactions^b, up from 159 in the previous year, and the total value of these transactions reached \$226 million – more than all other years combined since the market's inception^c. Supply increased considerably with the signing of 54 new Biodiversity Stewardship Agreements^d, which saw the addition of roughly 290,000 more credits into the market, and net credit demand increased by 11%.^e By nearly all indicators, the biodiversity credits market has shown substantial growth from prior years.

There are several possible drivers for the growth in the credits market, including:

- growing maturity of the credits market and the broader Biodiversity Offsets Scheme (i.e., the market becoming more established through improvements in confidence, information and market entry for participants).
- increasing development in NSW and the growth in demand for biodiversity credits
- the Department of Climate Change, Energy, the Environment and Water's (The Department) work program to support the establishment of new Biodiversity Stewardship Agreements and to match demand with supply (formerly through the Credits Supply Taskforce).

Growth in transaction volumes can support the effective development of the credits market – if it occurs in a way that promotes competition and efficient market clearing. Our review this year will closely examine the drivers for market growth and investigate how it has affected the overall performance of, and competition in the market. We will also examine how new credits supply is matched with demand from existing and upcoming developments.

1.2 Biodiversity Conservation Fund balances continue to grow

In 2023-24, proponents showed less dependency on the Biodiversity Conservation Fund to offset their impacts than in previous years, but Fund balances continued to grow steadily. Payments into the Biodiversity Conservation Fund still outpaced the rate at which the Trust acquitted its obligations.

Between 2022-23 and 2023-24, the number of credit obligations that were transferred to the Trust via payments into the Biodiversity Conservation Fund halved (from 20,158 to 10,865). The value of these payments into the Fund totalled roughly \$64 million, and reduced by 21% from 2022-23^f. This could signal a change in proponents' reliance on the Fund amidst recent modifications to the way payments into the Fund are calculated (see section 2.6).

^b Throughout this paper, 'transaction' refers to a trade of credits. This does not include credit retirements.

^c Comparison in \$2023-24 terms

^d Figure excludes variations to 3 existing Biodiversity Stewardship Agreements

^e As a measure of credits traded on the market and the number of credit obligations transferred via payments into Biodiversity Conservation Fund.

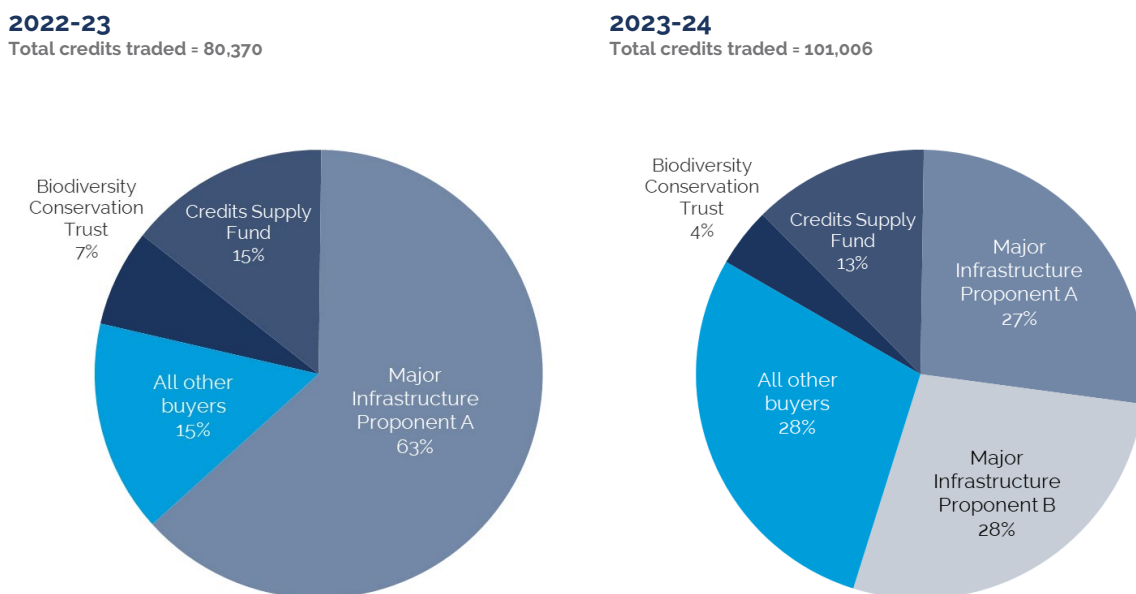
^f Comparison in \$2023-24 terms.

Despite this improvement, the total number of credits purchased by the Trust for acquittal shrunk by around a quarter to 4,293.⁹ This means that the Trust's new credit obligations grew at over double the rate that the Trust was able to purchase credits for acquittal. Currently over 50,000 unacquitted credit obligations remain with the Trust^h. The Trust's growing credit obligations will continue to have implications for its future involvement in the credits market and the level of market competition.

1.3 Market competition is gradually improving but remains a concern

Evidence suggests that competition amongst buyers within the market is gradually improving. As shown in Figure 1.2, in 2022-23, 63% (50,734) of all credit purchases involved one major infrastructure proponent ("Proponent A"). In 2023-24, Proponent A's total share of market purchases more than halved. The relative market share of both the Biodiversity Conservation Trustⁱ and the Credits Supply Fund^j also reduced slightly, and smaller buyers became more active in the market – increasing their share of purchased credits another 13% compared to 2022-23.

Figure 1.2 Market share of major buyers – by number of credits traded



a. Figures refer to credit transfers. Retirement transactions are excluded from the analysis.
 b. The Credits Supply Fund is operated by the Nature Markets & Offsets division in the Department of Climate Change, Energy, Environment and Water. Credits purchased by the Credits Supply Fund are on behalf of other buyers. Trade volumes shown above include some on-sales between Credits Supply Fund and other buyers.
 Source: IPART analysis, using data from the Department of Climate Change, Energy, Environment and Water.

⁹ This figure includes credits purchased for acquittal but not yet retired.
^h This figure excludes credits purchased for acquittal but not yet retired.
ⁱ The Biodiversity Conservation Trust purchase credits in the market to meet the offset obligations of proponents that have transferred into the Biodiversity Conservation Fund.
^j The Credit Supply Fund purchases known in-demand credits up front and sells them to proponents.

This year, a second major infrastructure proponent entered the market as a buyer of biodiversity credits ("Proponent B"). Proponent B was responsible for buying 28% (27,998) of all sold credits, despite not being involved in the market at all in the previous year.

Even with slight overall improvements to competition, over half the credit purchases this year can be attributed to 2 major buyers. We note that this year saw 70 different developers forego directly interacting with the market and instead choose to transfer at least some of their offset obligations to the Trust (down from 136 in 2022-23).

Between 2022-23 and 2023-24, the number of buyers participating in the market remained the same at 36. However, the number of landholders who sold credits rose by 37%, indicating that more sellers began trading directly with buyers in 2023-24.

Our review this year will continue to monitor market competition, the nature of interactions between buyers and sellers and the role of government organisations in reducing the barriers to entry.

For your feedback



1. What has been your experience with the market? For example, have you faced any difficulties or inefficiencies in buying or selling credits?
2. What do you see as the costs or obstacles to participating in the market?
3. What changes, if any, have you noticed in the performance and competition in the credits market during the last financial year?

2 Our focus areas for this year

The market is evolving and in response, we have adapted our approach to monitoring the market since last year. We will revisit some of our analysis from last year but will also consider some new focus areas. Some of these topics were raised in last year's review and we decided to examine them in more detail this year, whereas others are emerging areas of importance.

As discussed at the start of this paper, the Government seeks to implement reforms to the Biodiversity Offsets Scheme. We will closely consider reforms to the market in the coming months and want our review to constructively add to the conversation. This means that we do not seek to recommend further major changes in areas that are already undergoing change. Rather, we seek to assess how these changes can be implemented in a way that supports the effective functioning of the market.

2.1 The role of government organisations in the market

The Department of Climate Change, Energy, the Environment and Water (the Department) and the Biodiversity Conservation Trust play a large role, both in shaping the market as well as participating in it. The complexity of the Scheme makes the roles of these agencies equally complex, with some overlaps and interactions with each other. We propose to look at the role of the Department and the Trust, both in terms of practice and governance.

The Government indicated in July 2024 that it will continue to invest in the Biodiversity Credits Supply Fund and improve operation of the Biodiversity Conservation Fund. As we identified last year, these 2 funds have a high impact in the market and the Biodiversity Conservation Fund is a fast and efficient alternative to trading directly in the market.

This year, we will further investigate the operation of Biodiversity Credits Supply Fund to identify its impacts on the market and whether it is operating efficiently. We will also look at the Government's proposed ways of improving the operation of the Biodiversity Conservation Fund, to assess their implications.

For your feedback



4. What has your experience with the Biodiversity Conservation Fund and/or Credits Supply Fund been?

2.2 Confidence in the market's integrity and governance

As we identified last year, market participants generally have low confidence in the market.⁴ We suggested some potential causes for that, but also noted some areas where further analysis is needed. The topic continues to be important this year, especially in the context of increasing scrutiny on environmental offsets at the national level.⁵ We are proposing to examine whether changes to market governance can help to increase confidence.

The Government has signalled it is committed to supporting transparent, rigorous offsetting.⁶ It has discussed new initiatives to implement this, including:

- requiring proponents to demonstrate how they have genuinely avoided and minimised impacts to biodiversity, and this to be published on a public register
- providing stronger guidance for decision makers on how to determine serious and irreversible impacts on biodiversity
- introducing new statutory registers to track approved offset obligations and when they are met, and provide transparency for serious and irreversible impact decisions.

We will consider how these changes will have an impact on the market after they are rolled out. We have also identified some further areas of analysis relating to confidence in the market. One of these areas is the governance of accredited assessors and brokers, as we heard last year that market participants question whether there is sufficient oversight on them.⁷ Effective oversight of brokers and accredited assessors benefits market participants as well as themselves, to ensure their services remain trusted and high quality. We do not plan to look at the capacity of accredited assessors to apply the Biodiversity Assessment Method, as this is already monitored by the Department.⁸

For your feedback



5. What oversight of brokers and accredited assessors would allow you to be confident in their activities in the market?

2.3 Quality of information

We heard from many stakeholders last year that market information is often unreliable, whereas market participants need high quality information to inform their choices. For example, many stakeholders raised issues where unreliable market information increases the administrative burden of participating in the market.

Some areas that we consider can be investigated further are:

- the transparency of credit ownership registration
- the ability to identify related party transactions from public transaction registers
- new information improvement initiatives by the Department.

We also note the Department has been driving significant information and administration improvement initiatives over the past year. We will assess these to investigate whether they have reduced the administrative burden and information asymmetries for market participants.

For your feedback



6. What information do you need to make decisions about buying or selling in the market? What is currently missing?

2.4 Assessing the need for continued market oversight

We heard from stakeholders last year that barriers to entry and issues of market confidence are complex, potentially deeply rooted, and likely to stem from a variety of factors. Also, many changes have recently been made with further significant changes being considered that will impact the market after our monitoring role has concluded. In light of this, we will examine whether the presence of an independent oversight authority might lend confidence to participants in the market. As part of this we will consider:

- the potential frequency of monitoring activity

- what should be monitored within the market
- whether existing governance capabilities can be leveraged to take on a more streamlined oversight function.

In assessing these options, we will prioritise identifying an outcome that lends the greatest stability and confidence to the market, while minimising disruption to its everyday functioning. We will draw on the workings of similar markets and general financial regulation in Australia.

For your feedback



7. What form of market oversight would you like to see going forward to ensure your ongoing confidence in the market?

2.5 Barriers to entry for Aboriginal landholders

Aboriginal people are key enactors of biodiversity management and are a source of traditional ecological knowledge and land management expertise. Local Aboriginal Land Councils own and manage substantial holdings of land with biodiversity value.

We previously identified potential barriers to the participation of Aboriginal people in the biodiversity credits market, such as:

- the cost of Biodiversity Offsets Scheme obligations exacerbating the barriers to development of Local Aboriginal Land Council land
- upfront costs and complexity of the market
- limited targeted communication and support to Aboriginal communities around participating in the biodiversity credits market
- inherent conflicts between Aboriginal lands councils maintaining their rights to their land and entering into stewardship agreements with the Government to provide credits.

This year, we will work with Aboriginal landholders, including Local Aboriginal Land Councils to better understand their barriers to entering the credits market, including whether the way the market works aligns with Aboriginal land management and supports Aboriginal self-determination.

For your feedback



8. *For Aboriginal landholders:* what are the main barriers to your participation in the credits market? Are there any aspects of the biodiversity credits market that do not align with Aboriginal ways of managing Country?

2.6 Impact of price changes in the Biodiversity Conservation Fund

A key change that has occurred in 2023-24 is the removal of a one-year transitional price cap for payments into the Biodiversity Conservation Fund, which was implemented alongside a new payment calculator in October 2022. The transitional price cap remained in force between October 2022 – October 2023, with the aim to minimise market impacts from the new charge calculation system. It introduced a 20% cap on any price increases for credits priced higher than \$5,000 per credit under the new Biodiversity Offsets Payment Calculator.

This year's review will assess and report on any market impacts resulting from the removal of the price cap. This analysis will be particularly important as we found last year that the Biodiversity Conservation Fund pay-in price essentially sets a price ceiling in the market.⁹ Our analysis will therefore consider if and how average market prices have moved in response to the removal of the price cap.

For your feedback



9. Has the removal of the price cap in October 2023 impacted your use of the Biodiversity Conservation Fund? Have you noticed any secondary impacts resulting from this on the market?

3 Our recommendations from last year and proposed market reforms

Our recommendations from last year

We released our [first Annual Report](#) on the NSW biodiversity credits market in December 2023. Our analysis of the market over 2022–23 revealed that it is not operating well in 5 key areas:

1. The option for proponents to pay into the Biodiversity Conservation Fund is preventing the market from developing.
2. High up-front costs and long credit generation times create a lag between credit demand and supply.
3. Market participants lack accurate and timely information.
4. High transaction costs and market complexity discourage participation.
5. Stakeholders lack confidence in market oversight and governance, which hinders their participation in the credits market.

These findings were supported by data on credit transactions and key market indicators, as well as through discussions and written submissions from a wide range of market participants. We found that several changes were required to address issues of pricing, competition, transaction costs and barriers to entry, and we recommended 4 priority actions for the Government to improve the performance of the credits market:

1. Government interventions should prioritise facilitating market participation, maintaining integrity and instilling confidence in the market over keeping the cost of offsetting biodiversity impacts low.
2. The option for proponents to pay into the Biodiversity Conservation Fund should be phased out.
3. The Government should put interim measures in place to reduce development proponents' reliance on the Biodiversity Conservation Fund.
4. The Biodiversity Conservation Trust should develop an appropriate strategy for reducing the backlog of unacquitted credits in the Biodiversity Conservation Fund that considers the potential impact of its actions on competition and prices in the market.

Proposed Scheme reforms and impacts on market participants

Since releasing our 2022-23 Annual Report, the NSW Government published its NSW Plan for Nature which commits to address some of the issues identified in our review. In particular, the Government has flagged reforms to limit developer payments into the Biodiversity Conservation Fund, and to strengthen the requirements for the Biodiversity Conservation Trust to acquit its credit obligations.¹⁰

Our 2023-24 Annual Report will consider any Government reforms under the NSW Plan for Nature, including the extent to which proposed actions address key findings and recommendations from our 2022-23 Annual Report.

We heard from many stakeholders last year that frequent changes to the Scheme affected their confidence in the market. This year, we are interested to hear from stakeholders on how necessary reforms to the Scheme (including those that address issues of competition or market integrity) can be implemented smoothly and without disturbance to market confidence.

For your feedback



10. What information, communication or other measures could be taken to assist market participants navigate new market reforms?

¹ NSW Department of Climate Change, Energy, the Environment and Water, *NSW biodiversity outlook report 2024*, May 2024, p. ix.

² NSW Government, *NSW Plan for Nature*, July 2024, p. 14.

³ NSW Government, *Next steps for biodiversity offset reform*, August 2024.

⁴ IPART, *Biodiversity Market Monitoring Annual Report 2022-23*, December 2023, p. 105.

⁵ Sydney Morning Herald, 'Completely unacceptable': Environmental offsets scheme riddled with breaches, 20 May 2024.

⁶ NSW Government, *NSW Plan for Nature*, July 2024, p. 12.

⁷ For example see Allcock, A, submission to IPART Issues Paper, August 2023, p. 3; Cessnock City Council submission to IPART Issues Paper, August 2023, p. 2; NSW Independent Commission Against Corruption submission to IPART Issues Paper, August 2023, p. 3.

⁸ NSW Department of Climate Change, Energy, the Environment and Water, *Accredited assessor quality assurance*, accessed 15 August 2024.

⁹ IPART, *Biodiversity Market Monitoring Annual Report 2022-23*, December 2023, p. 4.

¹⁰ NSW Government, *NSW Plan for Nature*, July 2024, p. 13.