



## Understanding the Biodiversity Net Gain Market

In the realm of economics, a market refers to a system where buyers and sellers engage in the exchange of goods, services, or resources. It is a platform that facilitates transactions and allows for the allocation of scarce resources based on supply and demand dynamics.

In recent years, a new type of market has emerged in the environmental sector, focusing on the concept of Biodiversity Net Gain (BNG). BNG is an approach that aims to ensure that development projects not only mitigate their ecological impact but also contribute to the enhancement of biodiversity. It requires developers to assess the biodiversity value of a site before and projected value after a project and to implement measures that result in a net positive impact on biodiversity.

The emergence of the BNG market represents a significant shift in how we approach development and conservation. It creates a financial incentive for landowners and organizations to invest in biodiversity conservation and restoration projects, as they can generate revenue by selling BNG units. This market-based approach aims to streamline the process of achieving biodiversity net gain and ensures that development activities contribute positively to the environment.

As the BNG market continues to evolve and mature, it has the potential to become a powerful tool for driving sustainable development and promoting the conservation of our planet's precious biodiversity. By understanding the dynamics of this market and its role in the broader context of environmental stewardship, we can work towards building a future where economic growth and ecological preservation go hand in hand.

### **The Mechanics of the BNG Market: Offsetting Biodiversity Loss**

The BNG market operates on the principle of offsetting biodiversity losses caused by development projects. Developers who are unable to achieve the required biodiversity gains on-site can purchase BNG units from third-party providers who have created or enhanced habitats elsewhere.



These BNG units serve as a measurable unit of biodiversity value and can be traded within the market.

The process begins with developers assessing the biodiversity value of a site before and projected value after a project using standardized metrics. If the post-development biodiversity value is lower than the pre-development value, plus a defined percentage uplift, the developer must implement measures to achieve a net gain in biodiversity off-site. The first port of call for a developer is to turn to the BNG market to purchase BNG units in order to offset the biodiversity loss.

## **The Dynamics of Supply and Demand in the BNG Market**

The supply side of the BNG market consists of landowners, conservation organizations, and other entities that create or enhance habitats to generate biodiversity credits. These suppliers invest in conservation and restoration projects, such as wetland creation, reforestation, or habitat improvement, to increase biodiversity value. The BNG units generated from these projects can then be sold in the BNG market.

On the demand side, developers who are required to achieve biodiversity net gain but are unable to do so on-site become buyers in the market. They purchase BNG units to offset their biodiversity losses and meet regulatory requirements. The demand for BNG units is driven by the scale of development activities and the stringency of BNG regulations.

## **The Evolution of BNG Market Platforms: From Physical to Virtual Transactions**

The BNG market can operate as either a physical or virtual market. In a physical market, buyers and sellers directly interact and negotiate the sale of BNG units. This can involve face-to-face meetings, site visits, and physical exchange of documentation.

However, the BNG market is increasingly moving towards a virtual platform, where transactions occur online. Virtual marketplaces provide a centralized platform for buyers and sellers to connect, exchange information, and complete transactions. These platforms often include features such as BNG units listings, pricing information, and secure payment systems, making the process more efficient and transparent.

## **The Essential Features of a Functional BNG Market**

For the BNG market to function effectively, certain key features must be in place:

**Arena:** The BNG market requires a well-defined space, whether physical or virtual, where buyers and sellers can interact and conduct transactions.

**Buyers and Sellers:** The market must have a sufficient number of buyers (developers) and sellers (credit providers) to create liquidity and enable efficient price discovery.

**One Commodity:** BNG units serve as the standardized commodity traded in the BNG market. These units represent a measurable unit of biodiversity value and ensure consistency in transactions.



## **Classifying the BNG Market: A Hybrid of Regulatory, Auction, and Financial Elements**

The BNG market can be classified as a regulatory market, as it is driven by government regulations and policies that require developers to achieve biodiversity net gain. The market operates within the framework set by regulatory authorities, which define the rules, standards, and compliance mechanisms.

In some cases, the BNG market may also incorporate elements of an auction market, where BNG units are sold through competitive bidding. Auctions can be used to determine the market price of units and ensure efficient allocation of resources.

Additionally, the BNG market has characteristics of a financial market, as BNG units are traded as financial instruments. The market enables the monetization of biodiversity value and creates incentives for investment in conservation projects.

## **OTC vs Trading: Pros and Cons of the BNG Market**

The BNG market can operate through two main mechanisms: Over-the-Counter (OTC) transactions and trading on organized platforms.

Each approach has its own advantages and disadvantages, which are important to consider when participating in the BNG market.

### **OTC Transactions**

OTC transactions involve direct negotiations between buyers and sellers, without the use of a centralized exchange. In the BNG market, OTC transactions allow developers and BNG unit providers to engage in personalized discussions, tailor agreements to specific project requirements, and establish long-term partnerships.

### **The Advantages of OTC Transactions in the BNG Market**

1. **Flexibility:** OTC transactions offer greater flexibility in terms of negotiating prices, unit quantities, and delivery terms, enabling buyers and sellers to customize deals based on their specific needs.
2. **Direct communication:** OTC transactions facilitate direct communication between buyers and sellers, allowing for a more collaborative approach to achieving biodiversity net gain.
3. **Long-term partnerships:** OTC transactions can foster long-term partnerships between developers and credit providers, ensuring a reliable supply of credits for future projects.

### **The Disadvantages of OTC Transactions in the BNG Market**

1. **Lack of transparency:** OTC transactions may lack transparency, as prices and terms are negotiated privately, making it difficult for other market participants to access pricing information.
2. **Limited liquidity:** OTC markets may have limited liquidity, as buyers and sellers must find each other and negotiate terms individually, which can be time-consuming and inefficient.



3. Counterparty risk: OTC transactions involve direct exposure to counterparty risk, as the creditworthiness and reliability of the other party may not be fully known or guaranteed.

### **Trading on Organized Platforms**

Trading biodiversity credits on organized platforms, such as online marketplaces or exchanges, provides a more structured and transparent approach to the BNG market. These platforms bring together multiple buyers and sellers, facilitating price discovery and standardizing transaction processes.

### **The Advantages of Trading on Organized Platforms in the BNG Market**

1. Price transparency: Trading on organized platforms ensures greater price transparency, as market participants can access real-time pricing information and historical data.
2. Increased liquidity: Organized platforms attract a larger pool of buyers and sellers, leading to increased liquidity and easier matching of supply and demand.
3. Standardized contracts: Trading platforms often use standardized contracts and settlement processes, reducing transaction costs and legal uncertainties.
4. Risk management: Organized platforms may offer risk management tools, such as clearing and settlement services, which mitigate counterparty risk and ensure the integrity of transactions.

### **The Disadvantages of Trading on Organized Platforms in the BNG Market**

1. Less customization: Trading on organized platforms may offer less flexibility for customizing deals, as contracts and terms are standardized to ensure efficiency and liquidity.
2. Market volatility: Prices on trading platforms can be more volatile, as they are subject to real-time market forces and speculative activities.
3. Regulatory compliance: Organized platforms may be subject to stricter regulatory oversight, which can increase compliance costs and administrative burdens for market participants.

Choosing between OTC transactions and trading on organized platforms depends on the specific needs and preferences of buyers and sellers in the BNG market. OTC transactions offer greater flexibility and the opportunity for long-term partnerships, while trading on organized platforms provides price transparency, increased liquidity, and standardized processes reducing costs.

Market participants should carefully consider the pros and cons of each approach and select the mechanism that best aligns with their biodiversity net gain strategies and risk management requirements.



## **Harnessing the Power of the BNG Market for Sustainable Development**

The Biodiversity Net Gain market represents a significant step forward in the quest to harmonize economic development with ecological conservation. By creating a framework that incentivizes developers to not only mitigate their environmental impact but also contribute to the enhancement of biodiversity, the BNG market offers a pragmatic solution to the pressing challenge of balancing growth and sustainability.

As the market continues to evolve, it is crucial for all stakeholders – developers, landowners, conservation organizations, and regulatory bodies – to collaborate closely and ensure the integrity, transparency, and effectiveness of the BNG system. By leveraging the power of market forces and innovative financial mechanisms, we can unlock the potential of private investment in nature conservation and restoration, creating a win-win scenario for both the economy and the environment.

The success of the BNG market will ultimately depend on its ability to deliver measurable, verifiable, and long-lasting gains in biodiversity. This requires robust monitoring and reporting frameworks, as well as ongoing research and innovation to refine the metrics, methodologies, and best practices that underpin the market.



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