

## **EAC: Inquiry on the role of natural capital in the green economy**

### **Response from Wildlife and Countryside Link**

*Wildlife and Countryside Link (Link) is the largest nature coalition in England, bringing together 78 organisations to use their joint voice for the protection of the natural world.*

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#### **Introduction**

1. We welcome this Environmental Audit Committee inquiry on the role of natural capital in the green economy. Growing Government awareness of this role has not yet fed through into a robust suite of policies.
2. We have provided responses to the questions where the expertise of our members can add relevant evidence for the Select Committee to consider. Key policy recommendations include the introduction of
  - A Nature Recovery Obligation to impose a regulatory requirement on large companies to avoid and remedy damage to nature.
  - A triple lock of high standards, monitoring and a new regulator to ensure that products on emerging environmental markets genuinely boost natural capital stocks and the natural environment.
  - Further measures to integrate nature recovery considerations across Government, and to increase Ministerial understanding that the usefulness of a natural capital approach is not limited to stimulating private markets.

#### **Response to inquiry questions**

##### **What potential contribution can private capital investment make to measures to secure nature recovery?**

3. Private capital's contribution to nature recovery should not be seen just as a potential investment opportunity, but as a moral and practical necessity.
4. The key drivers of species decline, as identified by the authoritative State of Nature report<sup>1</sup>, are climate change, poor agricultural management, pollution and development. All of these drivers are exacerbated by business activity, from chemical pollution leaching into rivers to commercial development destroying grassland habitats and damaging floodplains. Although the exact impacts will vary from sector to sector, it is usually the largest businesses that cause the most damage to natural capital stocks. These impacts must be remedied by action from the instigators, first by the

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<sup>1</sup> <https://www.rspb.org.uk/our-work/state-of-nature-report/>

avoidance and reduction of harms and then by the provision of private sector investment in nature's recovery.

5. This moral requirement is complemented by practical considerations. Along with the loss of species and our rich natural heritage, a failure to halt nature's decline will mean sharply rising costs for business, from the multi-billion-pound consequences of pollinator decline for food producers<sup>2</sup> to the destruction of property assets from flooding and fire<sup>3</sup> and fisheries collapse.<sup>4</sup> WWF have estimated that failing to protect nature and reverse biodiversity loss could cost the UK economy £16 billion every year.<sup>5</sup> In this context, early investment by business in nature recovery and species conservation is the cost-effective option.
6. The practical case for private capital investment is further boosted by decent rates of return, with the Natural Capital Committee estimating that investing in natural capital has a cost-to-benefit ratio equivalent to rail infrastructure and housing investment.<sup>6</sup> The PR benefits accrued from investment in nature recovery are also not inconsiderable, at a time when the environment is a top four voter concern.<sup>7</sup>
7. Whilst the case for private sector investment in natural capital stocks is proven, the scale this investment should take is still to be decided.
8. The UK Government's 2021 Autumn Budget included a target to raise at least £500m in private finance for nature's restoration every year by 2027, increasing to £1bn annually by 2030. This target is hugely under-ambitious.
9. The Green Finance Institute estimate a funding gap of £56 billion from 2022 to 2032 for biodiversity when comparing existing funds and Government objectives.<sup>8</sup> Given the scale of the private sector's impact on nature, and the costs companies will face if natural capital stocks deteriorate further, private investment should be expected to meet at least half the scale of need to achieve the UK's environmental ambitions over the next decade, alongside more robust regulations and a significant increase in public spending, on the basis that nature's recovery is very much in the public interest.

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<sup>2</sup> <https://www.sciencedirect.com/science/article/pii/S0921800920300793>

<sup>3</sup> [https://xdi.wpengine.com/wp-content/uploads/2021/11/XDI-UK-National-Physical-Climate-Risk-Report\\_UK\\_V10-Executive-Summary.pdf](https://xdi.wpengine.com/wp-content/uploads/2021/11/XDI-UK-National-Physical-Climate-Risk-Report_UK_V10-Executive-Summary.pdf)

<sup>4</sup> <https://www.regimeshifts.org/item/567-fisheries-collapse#:~:text=A%20fishery%20collapses%20when%20the%20levels%20in%20marine%20food%20webs>

<sup>5</sup> <https://www.wwf.org.uk/press-release/launch-new-global-futures-report>

<sup>6</sup> [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/517006/ncc-research-invest-natural-capital-final-report.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/517006/ncc-research-invest-natural-capital-final-report.pdf)

<sup>7</sup> <https://www.ippr.org/blog/politicians-have-a-public-mandate-for-climate-leadership>

<sup>8</sup> <https://www.greenfinanceinstitute.co.uk/news-and-insights/finance-gap-for-uk-nature-report/>

10. Current Government plans to deliver private investment in nature's recovery do not rise to this level, being focused on voluntary efforts and market-making. A regulatory driver is needed to drive private investment in nature at scale. This would ensure that the private sector's role goes beyond investment with the expectations of returns but provides funding to effectively drive nature's recovery. In response to the below questions, we recommend a Nature Recovery Obligation to provide this regulatory driver, along with environmental market measures.

**How can investment best be aligned with environmental benefits, so as to achieve or surpass the Government's targets for nature recovery?**

11. A significant proportion of private sector investment in natural capital should be directed through an overarching regulatory requirement, to ensure this financing makes a proportionate and effective contribution to nature recovery targets.
12. Link has proposed a 'Nature Recovery Obligation' to provide this regulatory requirement.<sup>9</sup> The Obligation would require large companies (with 250 employees or more) in the sectors that cause the most environmental damage to disclose their impacts on nature, implement Nature Positive Plans and pay a levy based on the size of the company's environmental footprint.
13. This model would first require companies to identify (through disclosure, e.g. through the Taskforce for Nature Related Financial Disclosures) their impact on nature, and then to act to avoid and reduce it (through Nature Positive Plans, integrated with net zero planning). After avoiding and reducing harm, which should be the priority, the Nature Recovery Obligation would require companies to fund nature's recovery through levy payments. The size of the levy payment would be calculated annually on the basis of the company's environmental footprint, providing an incentive to act quickly to avoid and reduce harms.
14. This overarching regulatory requirement would provide welcome certainty for the private sector. Regulations to require and direct private sector investment in nature are generally anticipated, with an expectation that requirements will be more onerous the later they are introduced into the arc of nature's decline. The introduction of a comprehensive, long-term structure now, when we still have a chance of arresting nature's decline within a decade, will provide businesses with the certainty and timeframe they need to plan.
15. Businesses themselves are demanding such a regulatory requirement. Ahead of COP15 in December 2022 more than 330 business and finance institutions, including Sainsbury's, Sony Group Corporation and Unilever, wrote to world leaders to request the introduction of mandatory nature recovery requirements for businesses.<sup>10</sup> Similar interventions have taken place at a domestic level

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<sup>9</sup> See second policy in Link Nature 2030 policy programme

[https://www.wcl.org.uk/assets/uploads/img/files/Nature\\_2030\\_Report\\_18.07.2023.pdf](https://www.wcl.org.uk/assets/uploads/img/files/Nature_2030_Report_18.07.2023.pdf)

<sup>10</sup> <https://www.businessfornature.org/news/business-call-for-mandatory-nature-assessment-and-disclosure-at-cop15>

over the past year.<sup>11</sup> Such a requirement will go some way to fulfil the UK's obligations to meet Targets 15 and 19 of the Global Biodiversity Framework, adopted by the 15th Conference of the Parties to the Convention on Biological Diversity in Montreal in December 2022.<sup>12</sup>

16. Revenue raised from the Nature Recovery Obligation levy could be invested directly in accredited nature recovery projects, directing this private sector investment into measures that will effectively boost and recover the natural environment. Projects that enable the progression of recommendations made by a Local Nature Recovery Strategy, or directly contribute to the delivery of Environment Act 2021 and Environmental Improvement Plan 2023 targets, could be prioritised for levy funding in order to further maximize impact. A Land Use Framework could provide a useful guide to allocate funds most efficiently to achieve environmental objectives across the UK.
17. Levy funding, provided by companies on an annual basis, could be particularly useful in meeting the ongoing maintenance costs of habitat recovery. Public sector funding often provides one-off capital expenditure required to carry out immediate restoration work, but ongoing public funding to meet the long-term costs of maintaining restored habitats is rarer. The one-off Green Recovery Challenge Fund of 2020-22 provides a useful illustration; whilst Defra helpfully provided £80 million to get habitat recovery projects off the ground, this was not complemented by funds to maintain the nature gains into the long term.<sup>13</sup> Private sector investment can provide a helpful role in meeting such ongoing operational expenditure, through match funding and other means.
18. The revenues from the levy could also be used to bridge the finance gap faced by a lot of habitat restoration projects, helping them to scale up sufficiently to attract private investment. For marine restoration, projects are very costly and risky, with limited opportunities for revenue currently. A pool of revenue such as that provided by the levy could be valuable in de-risking these projects and making them more economically viable, thereby helping to create a pipeline of projects in the UK to attract private finance.

**What measures are necessary to (a) establish and (b) maintain the high-integrity markets in ecosystem services which are expected to attract private investment? What confidence do investors currently have in the UK's arrangements for these markets?**

19. The increase in environmental markets over recent years demonstrates a growing commercial appetite for natural capital investments. As new environmental markets begin to gain prominence, there is an opportunity to learn from the current shortfalls and risks of the voluntary carbon market, where carbon credits of dubious quality are freely available to buy, sometimes many times over,

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<sup>11</sup> See for example September 2022 letter from over 100 UK businesses:

[https://www.corporateleadersgroup.com/files/business\\_letter\\_to\\_the\\_prime\\_minister\\_on\\_prioritising\\_net\\_zero\\_and\\_nature\\_restoration\\_to\\_build\\_a\\_resilient\\_uk\\_economy\\_200922.pdf](https://www.corporateleadersgroup.com/files/business_letter_to_the_prime_minister_on_prioritising_net_zero_and_nature_restoration_to_build_a_resilient_uk_economy_200922.pdf)

<sup>12</sup> <https://www.cbd.int/doc/decisions/cop-15/cop-15-dec-04-en.pdf>

<sup>13</sup> See Green Recovery Challenge Fund evaluations: <https://www.heritagefund.org.uk/about/insight/evaluation/green-recovery-challenge-fund-evaluation>

and businesses face little scrutiny about the environmental credentials they claim. To avoid such greenwashing taking hold in emerging environmental markets, the Government should act swiftly to establish robust standards, monitoring infrastructure and a regulator.

20. Projects should be required to demonstrate that they have followed a set of practices meeting robust standards specific to the habitat where the project is taking place. We welcome the work currently being carried out by the BSI for Defra to establish a high-integrity standards framework for UK nature markets, as well as the development of additional codes beyond the Woodland Carbon Code and Peatland code to cover the full range of UK habitats and species, with each code requiring projects to provide genuinely additional, measurable, verifiable, permanent benefits for the habitats concerned. These codes should be established and put to use as swiftly as possible.<sup>14</sup>
21. To boost these safeguards, a publicly accessible spatial registry should track the creation and sale of units in environmental markets. This single registry, covering all projects in environmental markets, would guard against double counting and allow for nature gains to be monitored over time.
22. The codes and registry should be respectively set and maintained by a dedicated regulatory body, an Environmental Markets Authority. The new regulator would also investigate complaints of greenwashing and ensure that all verification schemes meet rigorous standards. It would also liaise closely with existing environmental bodies, including Natural England and the Environment Agency, to ensure that environmental markets respond effectively to nature's needs in a changing climate.
23. It is important that the Government acts quickly to establish this triple lock (standards, monitoring, regulator) for environmental markets. The unregulated, scattered reality of carbon markets should not become embedded as standard practice across all environmental markets. This country's sizable, stable economy and wide variety of habitats provides an opportunity for the UK to set a gold standard for emerging environmental markets, if high-integrity approaches can be hard-wired in from the start. Such measures would swiftly build investor confidence.

**What contribution will data from the Natural Capital and Ecosystem Assessment (NCEA) programme make to the objective measurement of changes in environmental outcomes?**

24. The NCEA programme is a welcome data collection initiative, which will provide the information needed to underpin high integrity environmental markets. It also marks a welcome collaboration between Defra and HM Treasury. The Government should continue to fund and proactively support NCEA work.

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<sup>14</sup> For further suggestions on code criteria, see Link's March 2023 'Reforming environmental markets' report: [https://www.wcl.org.uk/docs/Reforming\\_environmental\\_markets\\_Link\\_report\\_March\\_2023.pdf](https://www.wcl.org.uk/docs/Reforming_environmental_markets_Link_report_March_2023.pdf)

25. This cross-government model for natural capital work should become the norm. It is essential that the centrality of natural capital to future economic prospects is fully understood in the Treasury. There remains more work to do on this front, illustrated by the fact that natural capital considerations serve only as supplementary guidance to the Treasury Green Book (the main appraisal and evaluation model for Government spending).<sup>15</sup> This failure to factor in natural capital can be seen across other Government departments also – the February 2022 Levelling Up White Paper omitted natural capital from its list of capital types.<sup>16</sup>
26. Impact on natural capital should become a central consideration in all Government spending decisions, and in evaluation of national economic health. All departments should use natural capital approaches as a way of understanding and improving the resilience of the natural environment and the whole economy. All departments should understand that accurate natural capital accounting is essential for understanding the true costs, benefits and externalities of Government decision making, and for guiding public spending and regulatory decisions. A good example is fisheries management, which should assess fish stocks as natural capital, and correspondingly penalise unsustainable non ecologically based fishing industry practices.
27. To aid this cross-Government understanding and adoption of natural capital, the Government should commit to publishing an annual Natural Capital Budget with the annual Budget Statement, alongside a balance sheet for natural assets across the UK (showing their extent and condition), and corporate natural capital accounts. The Government should also set out an action plan to implement the recommendations from the Dasgupta Review of the Economics of Biodiversity<sup>17</sup> and the final report submitted by the Natural Capital Committee.<sup>18</sup>

**How can the proposed UK Green Taxonomy support high-quality investments which deliver genuine benefits to nature? What financial disclosures should the taxonomy require?**

28. The Independent Review of Net Zero recommended including a ‘transition taxonomy’ alongside a Green Taxonomy, to build investor confidence by providing information on transition pathways to put transition plans into context.<sup>19</sup> This transition transparency would provide up-front information about the scale of change needed for nature, and should be progressed. In line with the EU, the UK

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<sup>15</sup> <https://www.gov.uk/government/publications/enabling-a-natural-capital-approach-enca-guidance/enabling-a-natural-capital-approach-guidance>

<sup>16</sup> <https://www.gov.uk/government/publications/levelling-up-the-united-kingdom>

<sup>17</sup> [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/962785/The\\_Economics\\_of\\_Biodiversity\\_The\\_Dasgupta\\_Review\\_Full\\_Report.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/962785/The_Economics_of_Biodiversity_The_Dasgupta_Review_Full_Report.pdf)

<sup>18</sup> [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/931695/ncc-end-of-term-report.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/931695/ncc-end-of-term-report.pdf)

<sup>19</sup> [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/1128689/mission-zero-independent-review.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1128689/mission-zero-independent-review.pdf)

should also review the Green Taxonomy every at least every three years to ensure it reflects advances in scientific and technological understanding.<sup>20</sup>

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This response is supported by the following Link members:

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<sup>20</sup><https://eco-act.com/climate-legislation/european-green-taxonomy/#:~:text=The%20European%20Commission%E2%80%99s%20Technical%20Expert%20Group%20on%20Sustainable,in%20a%20bid%20to%20drive%20Net%20Zero%20transition>