Growing a market for English nature

Builders are set to buy 'biodiversity credits' from farmers and landowners to offset new developments. *Rachel Millard* investigates

English bluebells, violas and wild strawberries were among 11,000 wildflowers carefully planted by the team at the 4,000-acre Alscot Estate in Warwickshire during an overcast week last October.

"There was beautiful sunshine to bring the planting to an end. It's now over to nature…" the planters wrote after finishing their work.

The emerging shoots make for a cheerful springtime, but also have a more serious role. The Alscot Estate, owned by the West family for nine generations, has spotted an opportunity in the national effort to reverse the dangerous fall in biodiversity.

It has been approved by Warwickshire County Council to sell so-called biodiversity "units" to developers looking to make up for the loss of wildlife at nearby projects, effectively meaning the developer funds biodiversity improvements.

Major housebuilder Crest Nicholson is an early customer to help mitigate the effects of new homes in Warwick. Such offsetting "means economic activity can occur and the environment can continue to flourish," Alscot says on its website.

Many will follow in Alscot's footsteps as the Government tries to meet the opposing targets of a rapid increase in the number of homes and infrastructure, while repairing damage to nature.

Under Boris Johnson's flagship Environment Bill, which sets out how the UK will manage the environment post-Brexit, developments in England are required to deliver net improvements to biodiversity.

Developers will need to try to do this on the site itself or by investing in projects offsite such as the Alscot Estate. As a last resort, they will be able to buy "biodiversity credits" from the Government, which will invest the funds in habitat projects.

> *'Many are realising this is something they can get into, especially with leaving the Common Agricultural Policy'*

The rules have not yet been embraced by all environmentalists, with Friends of the Earth warning they risk justifying "destructive housing sprawl" and "gives the impression that nature can be in constant flux, and can be dug and moved at the whim of developers".

But they are attracting interest from landowners, farmers and brokers, who see opportunities in the growing market for biodiversity units and credits, and argue these are an excellent way to bring in investment.

"We reckon that the market for biodiversity net gain for development will be in excess of £500m a year, and probably a lot more than that," says Prof David Hill, chairman of the private Environment Bank, which matches developers with biodiversity projects.

"If you look at the grant-based approaches to conservation, I think that's all old school, it's history. We need a heck of a lot of money and investment, and it's not going to come from the public or charitable sector."

Prof Hill founded the business in 2006 to develop effective biodiversity offsetting in the UK. He joined the board of Natural England, the Government's adviser on the natural environment, that year and served as its deputy chairman between 2011 and 2016.

He says he was "specifically absented" in any board discussions around biodiversity and development, albeit his opinion was consulted outside of that setting. He adds: "We were diligent in making sure that I didn't lobby Natural England." Policies on biodiversity in the Environment Bill were developed after he left, Prof Hill says.

The UK's record on biodiversity is as unhappy as the rest of the world's. The abundance of priority species has fallen 66pc since 1970, while 80pc of land is said to be within half a mile of road. MPs warned in June that the UK is "one of the most nature-depleted countries in the world". Peers last month told George Eustice, the Environment Secretary, that "we upset nature's delicate balance at our peril".

Under the Environment Bill, which is going through the House of Lords, developers in England will have to measure how many "units" of biodiversity there are at a site. They then need to keep or replace as many units plus 10pc for at least 30 years after development, known as "biodiversity net gain".

The impact on land demand from offsets could be vast. Analysis by the estate agent Savills at the start of 2020 found that about 68,000 hectares of land would be needed to offset the one million new homes proposed for the area known as the Oxford-Cambridge Arc, if all the biodiversity units were replaced offsite. Biodiversity net gain is a market with "significant potential", it said, offering "significant new income streams for landowners and managers".

SAM MOPPETT FOR THE TELEGRAPH

This potential has not gone unnoticed. In May, the specialist asset manager Gresham House, which has about £4bn under management, invested in Prof Hill's Environment Bank, and now owns more than 25pc according to Companies House.

It comes amid what some see as a growing professionalisation of forestry ownership in the UK, shifting from ultra-rich individuals to pension funds and institutional investors, likely also to boost interest in such schemes.

"We're finding it's getting more interesting in terms of what people want to do with the asset, rather than just hold it and not really do much," says Robert Guest, director of the Foresight Group, the £7.2bn investment manager with growing forestry investments. He also sees potential in biodiversity credits.

Harry Grocott, founder of carbon offset business Treeconomy, says landowners are keen to develop income from selling both carbon credits and biodiversity credits. "Many are realising this is something they can get into, especially with Brexit and leaving the Common Agricultural Policy," he says.

The Environment Bank now wants to set up more than 100 "habitat banks" around the country that can sell biodiversity units to developers. "We think offsite is much more straightforward," says Hill. "It delivers an income stream for farmers, landowners, it gets them engaged in nature conservation where it's not just a grant."

Schemes will need to have "really good governance," he adds, "to make sure that you don't get a cowboy situation where people bring forward some land, take some money, and then don't do anything with it."

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Whether all of this will have the desired impact on biodiversity remains to be seen. Critics argue biodiversity is hard to measure and replicate and specific to locations, making offsetting difficult, unlike carbon emissions where the practice is well established.

The net gain policy already faces some friction with the housing industry. The Home Builders Federation (HBF) says it is working with Defra and Natural England to ensure the requirements do not make developments "unviable", warning this could affect some areas more than others. It could also reduce funds available from developers for other community projects, HBF warned.

That is not the only area of tension, says Emily Norton, head of rural research at Savills. "We're supposed to meet renewable energy targets, grow food, provide for nature. How do we integrate all of those land uses sensibly over a limited footprint?" she asks.

Defra says it plans to start consulting in the autumn on how biodiversity net gain will be implemented, including policies around offsets, credits and investment. "We aim to secure positive outcomes for biodiversity, improve the process for developers, and create better places for local communities," says a spokesman.

In the meantime, MPs on the Commons environmental audit committee want the Government to set more legally binding targets to halt nature's decline.

As the country grapples to meet its net zero carbon emissions target by 2050, it could yet have further hurdles to overcome.

Shipping shortage delivers trouble for freight carriers

Orders for new vessels are near 20-year lows just as pollution rules are raising costs, reports *Alan Tovey*

The Ever Given's grounding in the Suez Canal in March brought the importance of shipping into global focus. Until the giant container ship closed the waterway for six days, few people knew 90pc of the world's goods trade moves by sea, meaning just one vessel could throw the sprawling and intricate system into chaos.

But even before the Ever Given made headlines, there was growing public awareness of a problem in the shipping network. Shoppers were noticing some imports becoming more expensive or scarcer as the pandemic forced the closure of ports. It also left the shipping containers the industry depends on out of place, reducing capacity in the system.

Freight rates for transporting a container from China to Europe have soared almost 800pc in a year, and the result is that Western consumers are finding imports harder to get and more expensive.

But these problems are just temporary. "Shipping suffers spikes and this is just a spike, but an unprecedented and spectacular one," says Paul Stott, shipping lecturer at Newcastle University. In the past, other parts of the sector have seen similar price increases, but they took longer or were less intense, Stott says. He points to large bulk carrier rates recording a similar increase in 2007 but taking two years to get there, and a three-fold jump in six months for oil tankers because of the 1973 oil crisis.

Now might seem the perfect time for shipbuilders and shipping lines to cash in on higher demand – and higher prices – for vessels. However, there are problems.

According to Andi Case, chief executive of shipbroker Clarkson, orders for new ships are equivalent to just 4pc of the current global fleet, down from almost 20pc about a decade ago. "It's a story we have been telling the market for years. The fleet size has grown 50pc since 2008, but shipyards are closing," said Case at the company's financial results presentation earlier this month. "There's a fundamental shortage of shipping."

Data from VesselsValue bears him out. According to its analysis, 12pc of the container ship fleet is on order, double the average for the entire cargo fleet.

Rival broker Braemar believes the problems are less intense. Chief executive James Gundy puts the order level at about 8pc-9pc, adding that demand "is on fire in containers and bulkers", but that shipbuilding capacity is not what it was. "A lot of yards went under after the building boom in 2008, I can't see them reopening," he says, referring to a deluge of ships hitting the market and prices tanking.

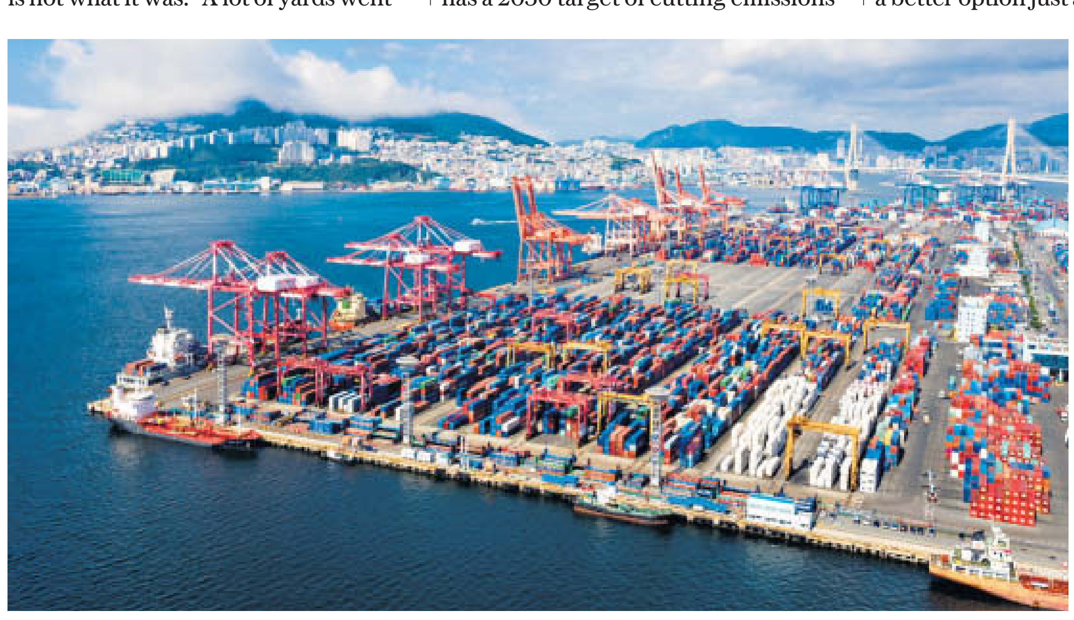
That might not be a bad thing, for the shipbuilders who are left. "I think yards like to have supply a bit tighter," says Gundy. "It gives them more control over pricing, higher margins."

Other factors could be holding back shipbuilders. Steel prices have near doubled as the global economy restarts, making ship materials more expensive.

The cloud of confusion hanging over shipping in the form of environmental regulation is one factor that is not going away. The industry represents 3pc of man-made CO2 emissions and the International Maritime Organisation has a 2030 target of cutting emissions to 60pc of their 2008 levels, and halving all emissions by 2050.

Meeting those requirements is likely to be expensive. Technology for cleaner ships is still being perfected and the best current options, "dual-fuel" vessels that run on oil or natural gas, are about 20pc more expensive. Other fuel options such as ammonia are being developed, and hydrogen is a future possibility.

Olivia Watkins, head cargo analyst at VesselsValue, says the costs may be putting off shipowners. "Premiums for dual-fuel vessels could make owners think about the number of vessels they need to order," she says. This is likely top be putting shipping lines off jumping in until they know there is not a better option just around the corner.



South Korea's Busan port, one of the busiest container terminals in the world. But there is a limit on how much ports can expand to handle greater volumes

60pc

The cut in carbon emissions, compared with 2008, that has been set as a target for the shipping industry to hit by 2030

Peter Aylott, policy director at the UK Chamber of Shipping, believes infrastructure is the real issue. "I'm relaxed we'll conquer technology to tackle pollution by 2050 and the cost is just ha'penny on freight over the life of a ship," he says. "And there's capacity in shipyards to meet demand."

Instead he believes ports need to become more efficient at loading and unloading, as this where the bottlenecks are. There is a limit on how much ports can expand to deal with greater volumes. Aylott also has concerns about setting up facilities to provide ships with new environmentally friendly fuel. "You can see it in the big ports, but what about a small one in Africa? That's hard to imagine," he says.

Most agree the short-term option to cut pollution and cost is "slow steaming". Sailing slower burns far less fuel, reducing emissions, but it does not satisfy consumers who are used to getting goods quickly.

Stott believes this is a burden we may have to bear until the new, green, and probably costly, technology, is introduced. "People want goods quickly and the problem is shipping is too cheap," he says. "It costs a cent to ship a pair a trainers from Asia to the West and we pay $100 for them. Would anyone notice if they had to pay 10 cents for that for shipping?"