

Biodiversity Credits Supply Fund market update

October 2023

In this market update

- Key outcomes to date
- Credit buyers
- The Biodiversity Credits Supply Fund's role in the market
- Credits approved for purchase in reverse auctions 1 to 3

Introduction

The Biodiversity Credits Supply Fund (Supply Fund) was established to increase the supply of credits and make them easier to buy and sell. The Supply Fund buys credits based on demand from development and infrastructure projects and on-sells the credits for use as offsets, or for philanthropic or strategic purposes.

The Supply Fund is operated by the Credits Supply Taskforce (Taskforce). Starting in October 2022, the Taskforce has held 3 reverse auctions to purchase in-demand credits.

This market update document covers key outcomes from the Supply Fund's operations to date, including reverse auctions, information on how auctions are run, the Supply Fund's role in the market, and information on credits approved for purchase by the Supply Fund. It is being published as part of the Taskforce's commitment to transparent and regular reporting and to support development of the biodiversity credits market, including to increase the availability of information to market participants.

Case study: Support for a landholder to create credits through a Biodiversity Stewardship Agreement

In early 2023, a NSW landholder near Orange, interested in managing habitat for native plants and animals on their property, submitted a Stewardship Expression of Interest to the Taskforce.

The Taskforce then funded an accredited assessor to advise the landholder about creating in-demand credits.

Using the information provided by the assessor, the landholder submitted a bid to the Supply Fund's second reverse auction to find an early buyer for their prospective credits. As a result, the bid was successful, and landholder's credits will be purchased once the Biodiversity Stewardship Agreement (BSA) is finalised.

This process provided certainty to the landholder that they could sell their credits to fund activities that would improve their property's habitat and ecosystems.

Key outcomes to date

The Taskforce has purchased nearly 13,000 credits, with another 41,000 credits approved for purchase, subject to the finalisation of 13 new biodiversity stewardship agreements and buyer confirmation. The total value of the credits approved for purchase is around \$120 million.

Across the 3 reverse auctions, 96 distinct bidders have made a total of 180 bids (which may cover one or more credit types). Nearly half of these bidders have been successful in one or more auctions.

Many credits offered in the auctions (around 68%) are coming from new BSA sites, reflecting an increase in the number of new landholders entering the Scheme in the past 12 months.

Between July 2022 and June 2023, the Taskforce approved 41 new BSAs covering almost 22,000 ha. This has doubled the area compared to all BSAs over the previous 3 years (2019 to 2022). These BSAs have generated 180,639 credits, with 92% (166,985) in immediate demand by proponents.

With each auction, bidders have offered an increasing variety of credit types. The number of different credit types offered nearly doubled from the first auction to the third auction. The Taskforce is buying 13 new credit types that have not been traded before. This highlights the expansion of credit types that were not previously available to buyers who need to find like-for-like credits.

Through the credits it has or will buy from the auctions to date, the Supply Fund is injecting \$36 million into the Biodiversity Stewardship Payment Fund, which provides for long-term management of BSA sites to achieve biodiversity gain.

These funds will support management activities across 12 sites. Payments to landholders above this amount cover the cost of land, assessment and other costs in establishing BSAs and selling credits.

The Taskforce has commenced the process of selling credits. Money from the sale of credits will be returned to the Supply Fund to enable further credits to be purchased.

Currently, the Supply Fund is on track to exceed expectations that the Fund will be able to purchase and re-sell \$200 million in biodiversity credits within 3 years of operation. In recognition of this, funding from 2024–25 has been brought forward to maximise the use of the Supply Fund during its initial 3 years of operation.

An 8% mark-up on the sale of credits provides for cost recovery. This funding is being used to cover operations of the Supply Fund and to work with landholders to increase the number of credits being created through BSAs, including through Stewardship Expressions of Interest.

Case study: Credit sales fund on-ground restoration

Before the February-March 2023 reverse auction, a landholder near Bathurst had only sold around 4% of the biodiversity credits from their registered BSA. Eager to shift their site into active management, the landholder bid to sell their credits through the Supply Fund's second reverse auction. The bid was successful, and the Taskforce is purchasing 1,300 of the credits offered. As a result, the remaining Total Fund Deposit was paid, and the landholder is now in active management of their site to cover pest and weed management and other activities to improve ecosystem condition, resulting in a gain in biodiversity value. The landholder was again successful in the Supply Fund's third auction after offering well-priced, in-demand credits.

Credit buyers

Proponents may try to meet their offset obligations in several ways, including establishing their own BSA sites to create the credits they need, purchasing credits directly from sellers, or transferring their obligation to the government by paying into the Biodiversity Conservation Fund (BCF). However, proponents are increasingly working with the Taskforce to find the like-for-like credits they need.

To date, the Taskforce has helped private and government buyers in the energy, mining, transport and urban development sectors to find credits. The Taskforce helps by supporting landholders to create the credits needed by upcoming projects, and by combining the credit needs of multiple projects and proponents as part of one Supply Fund credit procurement activity, reducing search and transaction costs.

The Taskforce is increasing the pool of proponents working with the Supply Fund by identifying projects with outstanding credit obligations and reaching out to offer support. The Taskforce is also working with peak bodies to increase awareness of the Supply Fund through the Urban Development Institute of Australia (UDIA), Urban Taskforce, Property Council of Australia, Housing Industry Association, NSW Minerals Council, Clean Energy Council and Local Government NSW. This is helping ensure the Taskforce is working with a wide range of proponents.

There is also potential for the Taskforce to work with philanthropic buyers, providing another source of credit demand. There has been limited interest from these buyers to date and in some cases the price of credits may be too high compared to other philanthropic options available. However, the Taskforce will continue identifying opportunities in the voluntary market, to help diversify the sources of credit demand and the variety of credits being sought.

Working with credit buyers as part of reverse auctions

Ahead of each reverse auction, the Taskforce asks proponents to identify which credits they would like to include on the target list for the auction. To maximise the number of credits that can be bought and sold through the Fund, the Taskforce seeks commitment from buyers that they will purchase credits within 6 months of each reverse auction.

After the evaluation panel completes a price-based assessment of the bids received through the auction, the Taskforce engages with potential buyers through a market sounding process. This allows the Taskforce to confirm that buyers are interested in the credits at the offered price and within the 6-month timeframe to allow credit turnover.

In the latest reverse auction, some buyers indicated they wanted to buy the credits but wanted more time (for example, due to finalising regulatory or financial approvals for

their project). To avoid delaying results to bidders, the Taskforce is progressing the purchase of credits subject to buyer confirmation, giving bidders the choice to wait to sell credits to the Taskforce or find another buyer. This increases the opportunity for landholders to find a buyer as soon as possible, either through the Supply Fund or independently. This approach is being monitored over the coming months.

Case study: Supporting buyers to find like-for-like credits

In November 2022, a large infrastructure proponent began working with the Taskforce to find and buy 45 credit types needed to offset its project. Through the 3 reverse auctions, more than 26,000 credits (10 credit types) have been sourced for the proponent, from 11 different sites. This has made procuring credits much easier for the proponent. The Taskforce is working with landholders to ensure the remaining credits are created.

The Supply Fund's role and impact on the market

Benefits to market participants in using the Supply Fund

Market participants do not need to use the Supply Fund, however, the Supply Fund offers benefits to both buyers and sellers. If a credit seller – for example, a landholder with a BSA – has several different credit types available for sale, they can more easily sell to different buyers and minimise their transaction costs through the Supply Fund. The credit seller can sell all these credits in one transaction. If a buyer needs different credit types or a large number of credits not available from a single seller, then buying these credits is made simpler through the Supply Fund as they only need to deal with one entity. The buyers can also have confidence in buying credits through the NSW Government, with sound procurement and probity controls in place.

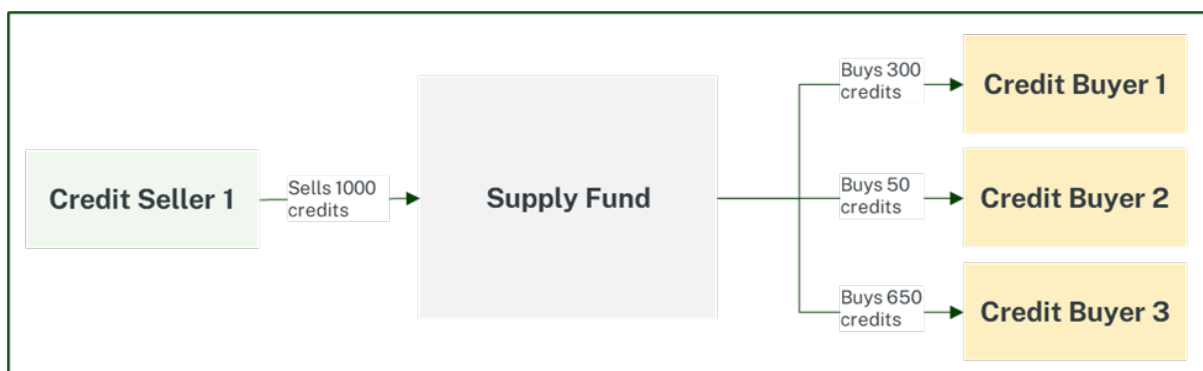


Figure 1 How the Supply Fund makes it easier and faster to sell credits

Credits are purchased within the range of past market transactions

In deciding which credits to recommend for purchase, the Taskforce ranks credit offers based on price, considering the offered price relative to:

- other offers of the same credit type
- past market transactions for the credit type
- the BCF charge estimate

To ensure the Supply Fund does not have an undue impact on market prices, the price range of previous market transactions is a critical consideration. Where there is

adequate market data (4 or more market transactions), the Taskforce only purchases credits if they are within the range of past transactions.

Where there is more limited market data, the Taskforce relies on other pricing information to recommend credits for purchase, including the BCF charge estimate, which represents the cost to a proponent of paying the government to satisfy their offset obligation.

Because the Taskforce needs to sell the credits on to proponents, prices above the BCF charge amount are not considered. The Taskforce also conducts market sounding to confirm that buyers are interested in the credits at the offered price.

The Supply Fund has a modest market share

The Taskforce is only one of many organisations participating in the biodiversity credits market. Since the Supply Fund commenced operations, 11 per cent of credits purchased through the biodiversity market have been through the Supply Fund, representing 21 per cent of the total market value.

The higher proportion of market value compared to the proportion of transacted credits indicates that the Taskforce has been purchasing higher-value credits than the market average over this period. The Taskforce purchases credits that are needed by buyers at a point in time, and this may reflect a preference amongst buyers to participate in a government-run competitive process to procure the higher-value credits they need.

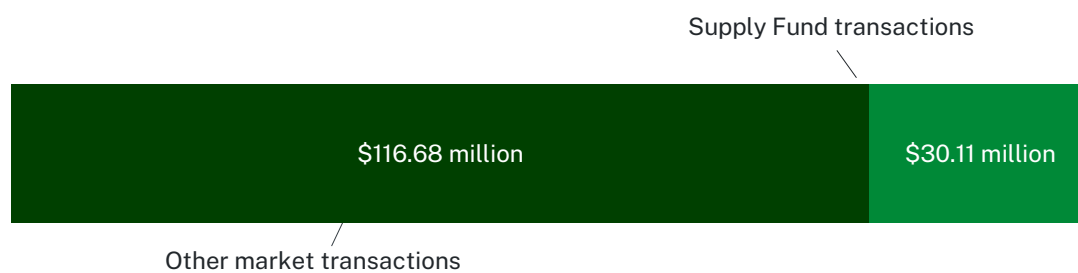


Figure 2 Supply Fund share of market October 2022-September 2023

The supply-demand gap is still significant for some credit types

In each auction held to date, the Taskforce has been offered more credits than are currently needed by buyers for certain credit types. While this suggests some credit types are potentially at risk of over-supply, a substantial gap exists between available credit supply and demand for other types of credits.

In the most recent auction the Taskforce received bids for 24 of the 85 target species credit types and 27 of the 59 target ecosystem credit types. While there is an increasing variety of credits being offered with each auction, this demonstrates that there is still a supply shortfall.

The shortfall is particularly pronounced for species credits. The Taskforce is seeking to identify potential to generate more species credits on Stewardship Expression of Interest (EOI) sites and is also funding species distribution models to better target survey effort.

It is expected that by increasing information to the market about this gap consistently ahead of each reverse auction and by working with landholders that may have potential to generate these credits, the Supply Fund will be able to address this issue, noting progress has been made in the first 12 months of operation.

Prioritising fairness and transparency, and repeatability

The Taskforce prioritises fairness, transparency and ethical decision-making when buying and selling credits through the Supply Fund. It seeks to improve functioning of the biodiversity market in New South Wales. In operating the Supply Fund, the Taskforce complies with the NSW Government Code of Conduct and the department's Conflict of Interests Protocol, and a probity adviser oversees governance arrangements and reverse auctions.

The Taskforce has run 3 reverse auctions to date and will propose this continues in 2023–24 and 2024–25. The reverse auction process has been developed and is now an established and repeatable method for buying credits. Each reverse auction has been run consistently (Figure 3), and with the intention to provide a consistent approach that can be relied on by buyers and sellers.

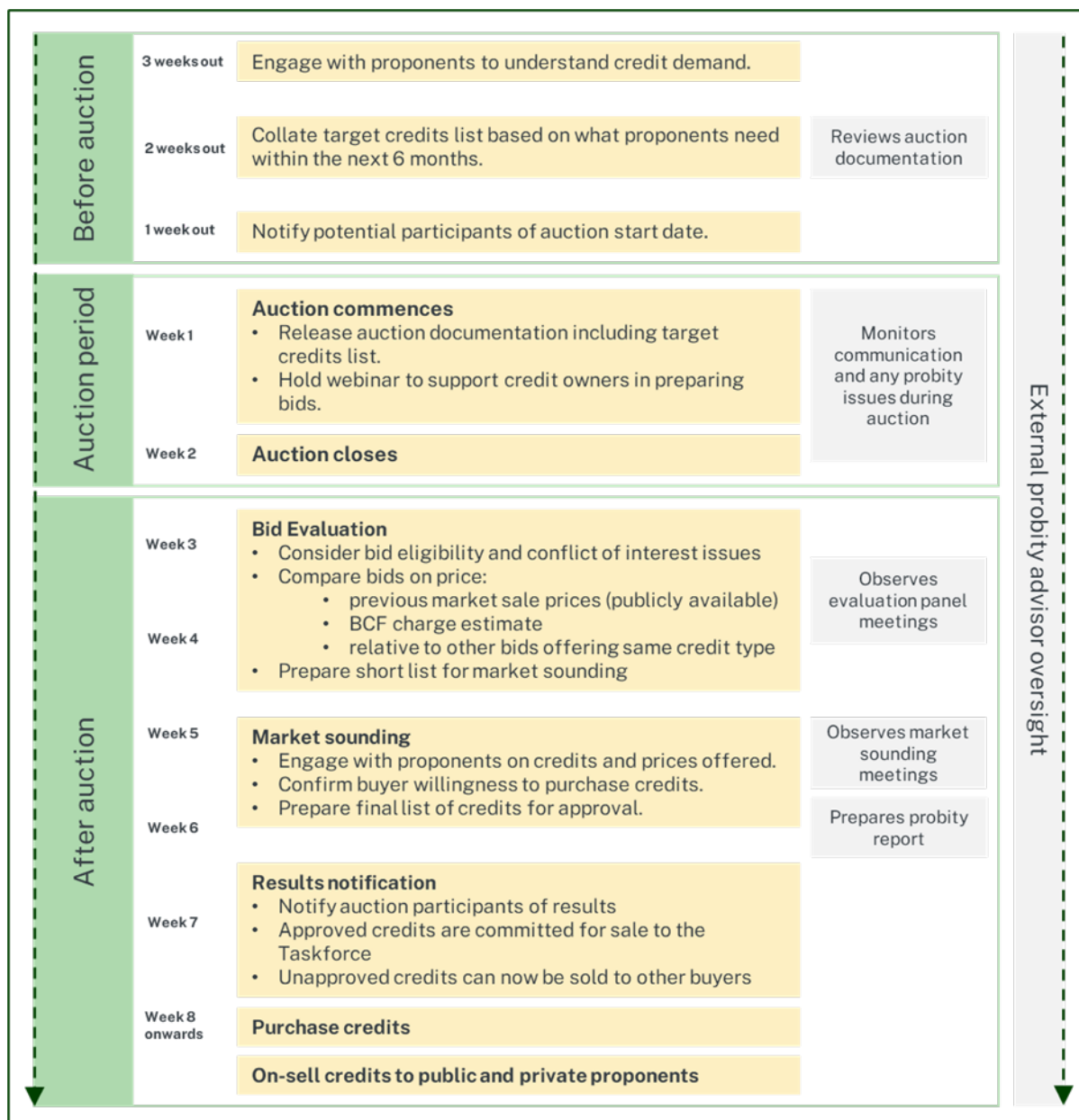


Figure 3 An overview of the reverse auction process and timeframe, including external probity adviser oversight.

Credits approved for purchase

Tables 1 and 2 show the credits purchased or approved for purchase in the 3 auctions held to date (excluding credits that did not proceed due to BSAs not progressing after the first reverse auction or for other reasons). These outcomes may change as credit purchasing proceeds or if some BSAs are not finalised. All finalised credit transactions are also recorded in the [credit transactions register](#).

Information in these tables relates to 3 auctions held between October 2022 and August 2023 and may not reflect market trends over time and should not be used for this purpose. Other sources of market information include the [credit transactions register](#) and [sales dashboard](#).

Table 1 Species credits approved for purchase through the Supply Fund

Species credits	Number of credits approved for purchase	Weighted average price per credit (excl. GST) (\$)
October-November 2022 reverse auction		
Koala	522	399
Silky Swainson-pea	98	1,500
Southern myotis	15	804
Squirrel glider	4,714	695
February-March 2023 reverse auction		
Eastern pygmy-possum	200	1,000
Koala	2,537	439
Slender Darling pea	2,996	748
Tylophora linearis	1,890	2,000
Winged peppercress	7,058	100
June-July 2023 reverse auction		
Brush-tailed phascogale	309	339
Giant burrowing frog	248	2,100
Greater glider	309	470
Koala	863	412
Large-eared pied bat	691	799
Silky Swainson-pea	3,326	607
Squirrel glider	1,325	500
Tylophora linearis	390	2,000
Wallum froglet	29	900
Winged peppercress	2,529	250

Table 2 Ecosystem credits approved for purchase through the Supply Fund

Offset Trading Group	IBRA Subregion	Hollow-bearing trees status	Number of credits approved for purchase	Weighted average price per credit (excl. GST) (\$)
October-November 2022 reverse auction				
Cumberland Plain Woodland in the Sydney Basin Bioregion	Cumberland	Yes	126	31,500
February-March 2023 reverse auction				
Carbeen Open Forest Community in the Darling Riverine Plains and Brigalow Belt South Bioregions	Northern Outwash	Yes	17	1,500
Coolibah-Black Box Woodland in the Darling Riverine Plains, Brigalow Belt South, Cobar Penepplain and Mulga Lands Bioregions	Castlereagh-Barwon	Yes	252	3,689
Floodplain Transition Woodlands greater than or equal to 70% and less than 90%	Northern Outwash	Yes	143	845
North-west Floodplain Woodlands greater than or equal to 70% and less than 90%	Northern Outwash	Yes	22	1,200
Pilliga Outwash Dry Sclerophyll Forests less than 50%	Pilliga Outwash	No	110	1,500
		Yes	2,365	
Semi-arid Floodplain Grasslands greater than or equal to 70% and less than 90%	Northern Outwash	No	9,996	5,176
Western Slopes Dry Sclerophyll Forests greater than or equal to 50% and less than 70%	Peel	Yes	6,459	1,700
White Box – Yellow Box – Blakely's Red Gum Grassy Woodland and Derived Native Grassland	Hill End	Yes	1,922	4,398
	Inland Slopes			
	Orange			
June-July 2023 reverse auction				
Cumberland Plain Woodland in the Sydney Basin Bioregion	Cumberland	Yes	168	31,396

Offset Trading Group	IBRA Subregion	Hollow-bearing trees status	Number of credits approved for purchase	Weighted average price per credit (excl. GST) (\$)
North-west Alluvial Sand Woodlands greater than or equal to 50% and less than 70%	Pilliga Outwash	No	18	2,202
		Yes	167	
North-west Floodplain Woodlands greater than or equal to 70% and less than 90%	Pilliga Outwash	No	51	3,087
		Yes	189	
Pilliga Outwash Dry Sclerophyll Forests less than 50%	Pilliga Outwash	No	15	1,500
		Yes	943	
Riverine Chenopod Shrublands greater than or equal to 90%	Pilliga Outwash	No	244	2,202
Shale Sandstone Transition Forest in the Sydney Basin Bioregion	Cumberland	Yes	102	18,000
Swamp Sclerophyll Forest on Coastal Floodplains of the New South Wales North Coast, Sydney Basin and South East Corner Bioregions	Macleay Hastings	Yes	39	2,895
Western Penepplain Woodlands greater than or equal to 50% and less than 70%	Canbelego Downs	Yes	2,000	1,800
Western Slopes Dry Sclerophyll Forests less than 50%	Pilliga	Yes	2,521	2,000
White Box – Yellow Box – Blakely's Red Gum Grassy Woodland and Derived Native Grassland	Hill End	No	766	4,342
		Yes	58	
	Inland Slopes	No	58	2,612
		Yes	2,612	
	Capertee Valley	Yes	449	
Pilliga	Yes	666		

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