



Natural Capital

Issue

For over two centuries, Australian landholders have invested in and managed properties for production and sale of agricultural commodities within various market arrangements that have ultimately focussed on production with less consideration of the value of natural capital used in producing those goods, and, unfortunately, this natural capital has depreciated over time. As awareness and concern for the environment and social expectation on the services it provides has elevated, it is prudent to consider how the value of natural capital can be meaningfully incorporated into the wider market-based framework to ensure social, environmental and economic benefits can be formally recognised and rewarded.

Landholders recognise the need to protect the natural capital that underpins their production systems; however, there is little recompense for the services the natural systems on their properties deliver to society. Furthermore, there is little acknowledgement of landholders who actively make improvement to their land to increase the value of their natural capital. While there is a private benefit, natural capital has been providing public good conservation outcomes on private land which, without a new paradigm, is set to continue indefinitely and should be acknowledged. As such, the benefits of lower food and fibre prices due to open competition within a free trade environment are enjoyed by all consumers. This is, at its worst, to the detriment of landholders who are struggling to cover the costs of environmental stewardship. The long-term outcome of this problem is the degradation of our natural capital. To continue with the current approach to agricultural supply chains is not in the best interests of farmers or Australian consumers.

Therefore, there is a logical imperative to capture the value of natural capital in a market-based framework that governs decision making on farm. In the absence of a market-based system that assigns value to natural capital and the various services provided by the environment, there is little ability for farmers to pursue the protection of natural assets within the current agricultural market framework without incurring significant cost or loss of income. Landcare has been a key transitional tool and needs to be built on. To date, national and state legislative instruments to protect the environment have been prescriptive, inefficient, and do little to recognise the potential role of farmers in sustaining, and enhancing, their natural and agricultural landscapes. This policy seeks to complement existing legislative frameworks, but also to empower landholders to quantify and manage their natural capital.

Research into the cost externalities for agriculture in Australia is inadequate, including assessment of production value, environmental benefits, and social benefits in balance with environmental costs

such as nutrient rundown, degradation or biodiversity loss. There has not been sufficient quantification of the natural capital value and ecosystem functions in the assistance they provide in supporting a healthy environment.

As farmers manage 51 per cent of Australia's land mass, they are in the best position to manage the land sustainably and protect the environment, and should be encouraged to do so. Farmers need to be paid fair and equitable returns for the products and services their properties provide. This policy addresses the need to capture the value of natural capital in a market-based system that is integrated with the Australian economy and recognises that the best environmental outcomes are achieved by empowering and incentivising landholders to manage their landscapes.

Background

Natural capital is the world's stock of natural resources which includes geology, soils, air, water and all living organisms. Many natural capital assets provide people with free goods and services, often called ecosystem services. Features of our environment that directly or indirectly produce value to people including ecosystems, species, freshwater, land, minerals, the air and oceans, as well as natural processes and functions are all elements of natural capital.

The world is trending towards a market-based system for valuing natural capital. Recent decades have shown an increase in Payments for Ecosystem Services (PES) programmes and the introduction of natural capital accounting standards to measure natural capital. Internationally, this includes the United Nations System for Environmental-Economic Accounting (UN SEEA). The international experience has provided a robust foundation with which to build a policy that is unique to the Australian landscape.

Valuing Natural Capital

The measurement and valuation of natural capital is essential for recognising and building the strengths of Australian landscapes in financial, environmental, community, cultural and spiritual terms. The measurement, restoration and building of natural capital introduces new economic threads into the canvas that maps rural communities across Australia and can help agricultural businesses grow and thrive.

The concept of natural capital has the potential to reconcile economic and environmental interests by integrating the value of natural capital in decision-making. Valuing natural capital makes it possible, for example, to test a cost-benefit analysis of building a new municipal water treatment plant, against restoration or preservation of catchments and wetlands for the clean water filtration services they provide.

This policy builds on extensive research and existing international policies for valuing natural capital. There are five pillars required to progress natural capital policy:

- Government recognition on the need for a natural capital policy;
- Development of a process for valuing biophysical assets and ecosystem services;
- Development of a process to publicly monetise biophysical assets and ecosystem services;
- Establishment of a private market; and
- Mechanism for policy review to inform future policy.

Policy Position

The NFF recognises the importance of the environment in the services it provides for agriculture and for the broader public. In order to sustain these assets into the future, an economic framework that recognises the value of these assets may be desirable.

Australia needs a natural capital policy that can drive industry valuation of natural capital and its incorporation into the national environmental economic accounts. The policy will help establish a marketplace that enables natural capital to be valued through crediting payments for derived ecosystems services. Valuing natural capital will also facilitate direct measurement and tracking of land condition and provide landholders with incentives to improve the value of these assets.

What the industry needs

The policy must:

- Recognise that 51 per cent of Australia's land mass is managed by farmers and they are best placed to manage their natural assets;
- Recognise that those in agriculture need to be paid fair and equitable returns for the products and services their properties provide;
- Recognise that a market driven system is the most efficient way to incentivise farmers to manage the landscape without incurring significant cost and potential loss of income;
- Develop a robust process for valuing natural capital and ecosystem services;
- Develop a robust process for monetising biophysical assets and ecosystem services;
- Recognise that regulatory control only of vegetation management is not the best pathway to committed outcomes. Pragmatic measurement of natural asset condition and incentivising landholders to improve it will provide more robust outcomes and remove the need for ongoing political intervention;
- Register of natural assets values on the National Environmental Economic Accounts and payments from the services these assets provide;
- Establish a marketplace that enables transaction of natural capital value through banking and commercial sectors at an individual landholder level;
- Recognise that, in the absence of valuation and a robust market for biophysical assets, just terms will need to be expanded to cover the loss of use rights;
- Have the ability to attract support and investment from external sources to deliver on industry and community needs;
- Distinguish public and private benefit in the publicly funded acquisition, measurement, collection and consolidation of reliable and valid data;
- Encourage and facilitate the sharing of data between organisations linked to agricultural industries who are interested in valuing and measuring changes in natural capital; and
- Establish a Natural Capital Commission, under NFF stewardship, to elevate the challenge of developing market and dimensions, oversee the key political, legal, economic, and social aspects of introducing a natural capital component to the Australian economy and investigate Australia's positioning within the international marketplace as a market provider of significant ecosystem services as well as environmentally and sustainably produced commodities.