

MAINTAINING AUSTRALIA'S NATURAL WEALTH: PRIORITIES FOR CONSERVATION POLICY

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Harnessing leading financing mechanisms in Australia

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Abstract

Every five years the Australian government releases a State of the Environment report which describes the condition of the nation's environmental assets. Each report, since the first was released 20 years ago, has said essentially the same thing: that while much of Australia's environment such as air and water quality in our major cities is improving, vast areas of the continent are in a poor condition and deteriorating.

They also show that while there are thousands of examples across Australia every day where individuals, communities and businesses strive to live sustainably, too often, despite our best intentions, we place short-term interests over long term benefits.

The old model for nature conservation is for a proportion of the budget to be allocated to environmental programs – at a national level the \$1 billion Natural Heritage Trust, the \$1 billion Biodiversity fund, the \$15 billion program to restore over allocated rivers in the Murray Darling Basin, and the \$2 billion Emissions Reduction Fund are some of the more notable examples.

There will always be a need for such programs, but the reality is that this will never be an adequate response. Australian's don't like paying more tax, and there are other mounting long term pressures on the budget, with an aging population, aging and inefficient public infrastructure and the need to address the budget deficit.

Sustainability needs to be built into the fabric of our economic and institutional structures, so that a healthy environment becomes a natural by-product of a growing economy.

To do this we need to understand why the market often leads to the degradation of environmental assets, and what policy tools are available to address this market failure.

Links:

Blueprint for a Healthy Environment and a Productive Economy:

<http://wentworthgroup.org/2014/11/blueprint-for-a-healthy-environment-and-a-productive-economy/2014/>

Using Markets to Conserve Natural Capital:

<http://wentworthgroup.org/2015/06/blueprint-paper-1-using-markets-to-conserve-natural-capital/2015/>

The subject of my talk is harnessing leading financing mechanisms in Australia but in addressing this subject, I need to first reflect on the bigger issue confronting conservation in Australia today, and that is the sudden and significant loss of interest in biodiversity.

The forward estimates in this years Commonwealth budget have reduced NRM funding to an all time low – half the investment that was at its peak in the mid 2000s.

There is no point designing elegant financial mechanisms if there is no interest from the Australian community in investing in them.

So let me start with the 2016 budget speech delivered by the Hon Scott Morrison, where he said *“Australians know that our future depends on how well we continue to grow and shape our economy as we transition from the unprecedented mining investment boom to a stronger, more diverse, new economy. “They know that their future, their jobs and those of their children and grandchildren depend on it.”*

He says: *“We will continue our investment in our national innovation and science agenda – to create our own ideas boom, in every city, in every town, in every factory, farm, shop and office...”*.

Yet in this 4,500 word speech, the words ‘natural resources’, ‘nature’ or ‘natural capital’ simply do not appear.

It was as if the environment has no role to play in a *“stronger, more diverse, new economy”*, not to mention the broader benefits it provides to the wellbeing of people.

Why is this? Why would the Treasurer not see the value of highlighting the benefits a healthy environment in creating a stronger, more diverse new economy?

Economists understand: In the OECD’s 2012 *Environmental Outlook to 2050* report, they conclude that the depletion of the world’s natural capital is now at a scale that in many cases risks irreversible change that could endanger two centuries of living standards.

More recently the 2016 World Economic Forum’s Global Risk Survey, which rated biodiversity loss and ecosystem collapse, water and food crises, extreme weather events, and a failure of climate change adaptation and mitigation, as major risks facing the world.

The community understands: in every Newspoll conducted since 1993, the majority of Australians have said they consider the environment as a very important issue.

This is also reflected in surveys of 5,000 of the NAB’s agribusiness customers, where more than 80 per cent say that soil health, water scarcity and energy costs are significant business risks, with biodiversity, minimising run-off and waste not far behind.

While conservation may fluctuate as a visible political issue, it is incredibly important to understand that our social values are much more strongly grounded than some people would have you believe.

So if the community understands, agribusiness understands, and policy makers understand, what’s the problem?

Now, there are a complex range of reasons why communities shift in their priorities. It was the UK Prime Minister Harold Macmillan who once famously said, when once asked what was the most difficult thing about his job, his reply was ‘Events, dear boy, events’. He was obviously speaking to a male journalist – it was 1958.

The major problem affecting conservation today is something we can do something about – it’s the narrative: it’s jobs or the environment.

Time after time, the environment movement is caught in this trap, because when people are forced into this false choice, we act on our instincts and favour short term economics over long term sustainability. Everybody does it – you do it, I do it, government’s do it. It’s hard wired into us.

My point is not to criticise activism. It has a very important role to play in public policy. But it should not be the only tool in the kit of conservation advocacy.

The key environmental challenge confronting Australia, and across the globe – is to change this narrative – to show that it is possible to grow the economy, create jobs and have a healthy environment, and that it is in our own self interest to do so.

Now, economists will argue till the moon freezes over whether the pursuit of economic growth is the way to maximise human wellbeing. And that’s all fine. But it is such a debilitating debate.

Whether we like it or not, we live in an era where the dominant goal of most nations is to pursue economic growth as a means of increasing the material wellbeing of people.

If you accept the proposition that this goal will continue to be pursued into the future, then the question as to whether economic growth is good or bad is actually quite irrelevant, because even today the consumption of natural resources is not sustainable.

Economic growth is not the problem, the unsustainable consumption of energy and materials is. They are not the same thing.

Instead of debating endlessly over the semantics as to whether economic growth is good or bad, imagine instead, an Australia where we applied the same principles that the Treasurer wants us to apply to the economy to the long term conservation of the nation’s natural capital.

Imagine the innovation that would be unleashed throughout Australia, as we *“transition from the unprecedented mining investment boom to a stronger, more diverse, new economy”* – to quote the Treasurer.

Imagine an Australia that aspires to a plan, not just for ‘jobs and growth’, but a plan for jobs and growth and a healthy environment.

The challenge and the opportunity

So how do we do this – how do bring the economy and the environment together?

As most of you know, last year the Wentworth Group entered this debate to show that it is possible to grow the economy, create jobs and conserve our environmental assets.

We did this to put into the public domain a solid economic case to counter this ‘jobs or the environment’ narrative, that has been so effectively used by vested interests to wind back

environmental reforms. And the good news is that many important people in business and from all sides of politics have listened.

We set out five long-term economic and institutional reforms that we believe will lead to this outcome.

I'm not going to go in to them today, but just to recap, the five reforms are:

1. Modernising Australia's reactive land and water use planning systems;
2. Using markets to finance conservation;
3. The value to people in conserving Australia's natural capital;
4. Regionalising management of Australia's natural resources; and
5. Creating a set of national environmental accounts.

These are set out in two papers which you can find on our web site.

The relevance for this conference is that it is not as simple as asking for more money from taxpayers. Sustainability needs to be built into the fabric of our economic and institutional structures, so that a healthy environment becomes a natural by-product of a growing economy.

So let me focus on how we might achieve this.

Let's start with some of the many examples where governments and businesses have responded to this challenge with positive results:

- pollution laws have improved air quality and created cleaner waterways and estuaries in our towns and cities;
- new farming practices such as minimum till and public funding for landcare have improved soil structure, increased vegetation and reduced soil erosion;
- land clearing controls, the creation of national parks, and investments to restore native vegetation on private land have afforded greater protection for Australia's biodiversity; and
- how government incentives to generate renewable energy are now driving the transformation of energy markets.

Despite these successes, and there are many, we are still a long long way from being a sustainable society.

If we want to fix climate change we need an economy that has net zero emissions. If we want to save species we need to restore hundreds of thousands of hectares of habitat. If we want to make farming sustainable we need to invest in soil conservation and maintaining the health of our river systems.

If we want to have any hope of saving the Great Barrier Reef we need to spend, not \$100m a year, but \$1 billion a year.

Innovation and Sustainability

The old model is for a proportion of the budget to be allocated to environmental programs – at a national level the \$1 billion Natural Heritage Trust, the \$1 billion Biodiversity fund, the \$15

billion program to restore over allocated rivers in the Murray Darling Basin, and the \$2 billion Emissions Reduction Fund are some of the more notable examples.

There will always be a need for such programs, but the reality is that Australian's don't like paying more tax, and there are other mounting long term pressures on the budget, with an aging population, aging and inefficient public infrastructure, and as the Treasurer has pointed out, the need to address the budget deficit.

We therefore need to look at innovative long term changes to the economy so that jobs and economic growth can go hand in hand with the conservation of the nation's natural capital.

Let me give you four mechanisms that are available to achieve this:

1. As I said, the traditional method is to use taxpayers money, such as through the National Landcare Program, to provide financial support to landholders to care for the environment.

This Landcare example, while it has its problems, has been remarkably successful in changing the way Australians read and manage the Australian landscape. In a 2012 survey, 93% of Australian farmers now say they practice landcare on their farms.

This also funded the National Reserves System and the creation and support for Indigenous Protected Areas, two long term landmark legacies so dear to the heart of many people here today.

2. Another option is to introduce revenue neutral changes to the tax system by removing subsidies from activities that pollute the environment and using these savings to create incentives for people to invest in activities that protect and restore environmental assets.

There are several billion dollars in savings here, and I am confident that promoted consistently, we will see such changes evolve over time. A Natural Capital Future Fund perhaps.

3. A third, related option, is to harness the growing carbon market by guiding investments into carbon farming, recognising that healthy landscapes store vast quantities of carbon.

It was less than 10 years ago that the suggestion that industry could offset its emissions by storing carbon in landscapes was opposed by all mainstream political parties – Liberal, Labor, National, Greens.

Today it has all party support, because when presented with the evidence that a well designed carbon farming program can deliver multiple co-benefits for conservation and regional Australia, they changed.

And as Steve Hatfield Dodds showed yesterday in the groundbreaking research that he and his CSIRO team have led, the opportunities, should we choose to take them, could, one day, underpin the transformation of the Australian landscape.

He also makes the point that you won't achieve the potential biodiversity and landscape co-benefits if you leave it solely to the market.

4. The fourth is one growing in popularity of all places in the urban development industry, and that is to use the rezoning of land - what is now being referred to as value capture – to fund infrastructure investments. It's not a particularly difficult leap to argue this as a

viable instrument to also finance investments in natural capital, particularly in the high population growth areas along the Australian coast.

Each of these instruments have their advantages and disadvantages, and some are more effective than others.

I have set these out today to highlight that we do have the tools if we choose to use them, but we are choosing not to use them, not because we don't think they are important, because fundamentally we've been conditioned into believing that we must choose – that a healthy environment must come at the cost to jobs and economic growth.

There is one other point I would like to make, and that is, that it is simply impossible to create a sustainable society without a system of national environmental accounts that sit next to and link to the national accounts.

If you don't measure it, you can't manage it.

If you genuinely believe in long-term environmental reform, environmental accounts must be the number one priority for the conservation movement today.

Michael Vardon and Peter Burnett will address this issue in more detail in a moment.

In conclusion ...

The community does, overwhelmingly support an aspiration to conserve our natural heritage – it defines who we are as a nation. It is, or a least it should be, a universal philosophy that underpins all political ideologies.

But the reality is that Australians don't like paying more tax, and with other long term pressures on the budget, we do need new innovative forms of long term investments in NRM.

This will only happen when the community understands that jobs and economic growth can go hand in hand with the conservation of the nation's natural capital.

That's our first challenge – to confront this narrative and re-position conservation.

Our second challenge is to frame our message in the positive. Just look at the overwhelming public support that renewable energy now has in the Australian community. They can see it, feel it, touch it.

Australia now sits on the edge of the most rapid economic expansion in human history. This is the Asian century. Within 20 years, all things being equal, this will produce a new middle class of over 3 billion people, one hundred times greater than the entire population of Australia.

This demand on our natural capital will create more challenges, but it will also create a vast array of new economic opportunities.

So let's start talking to people about a plan, not just for jobs and growth, but a plan for jobs and growth and a healthy environment.

Thank you.