

Factsheet 2:

Natural capital and environmental markets

What are the benefits and risks for landholders?

As a landholder, you play an important role in managing natural resources in NSW. As the world seeks to address environmental challenges, governments, businesses and communities are increasingly willing to reward landholders for protecting, restoring and improving those natural resources.

The stock of natural resources, or natural assets, on your land is known as your natural capital. By managing these resources sustainably, you can benefit from enhancing the value of your land's natural capital and get a financial return for your actions through environmental market opportunities.

This factsheet introduces environmental markets and some of the benefits and risks for landholders and support you to make the best choice for you and your business.

What is an environmental market?

An environmental market is created when people are willing to produce, sell, buy and exchange natural capital and environmental services for a monetary value. In other words, when there is supply and demand for natural assets or activities that protect the environment. Carbon or biodiversity markets are examples of environmental markets you might have heard of.

Natural capital is the stock of your natural assets or resources – such as plants, animals, air, water, soils and minerals – and the services those assets can provide, including food production, drinking water supply, fuel, building materials and medicines. Natural capital offers valuable benefits to society.

Environmental services are the activities people do to protect, manage, restore and improve natural capital, such as native species protection, revegetation, regenerating topsoil or repairing damage to landscapes.



If you have these resources on your land, and participate in any of these activities, you might be able to benefit from environmental market opportunities and an environmental market transaction or exchange, as per Fig. 1.



Figure 1. The basic components of environmental markets. Source: Environmental Markets Leadership Course (2023)

What environmental market opportunities are available?

Some environmental market-based opportunities that can come from investing in and protecting the natural assets on your land include:

- trading schemes such as carbon and biodiversity markets
- an increase in land value
- new market opportunities for your products
- access to green finance and loans
- potential tax concessions, grants or subsidies.

Environmental markets can be created for any natural capital or environmental service—such as controlling pests and weeds or protecting riparian zones—if there is a buyer willing to value and/or pay for it and a willing supplier.

Benefits for landholders

With investors, banks, insurers, consumers and companies factoring environmental outcomes into their decisions more often, natural capital and environmental markets can offer you a range of potential benefits.



Figure 2. Benefits of engaging in natural capital and environmental market opportunities. Source: Environmental Markets Leadership Course (2023)

Supporting land stewardship—Natural capital and environmental markets acknowledge and reward landholders for their important role in caring for the land, supporting landholders to produce primary products while protecting the environment.

Improved productivity—Investing in natural capital can increase the productivity of your land. You could see higher yields or lower costs thanks to co-benefits like improved soil quality and water retention, increased pollinators, stock protection from windbreaks or more efficient fertiliser application rates.

New revenue and market opportunities—You may be able to sell goods as a premium product, access new markets and increase sales, or even identify new markets and create solutions to meet those needs.

Diversification and resilience—You can improve the resilience of your land and farm business by diversifying operations and income.

Reducing or avoiding future costs—You can minimise or prevent current and future on-farm costs linked

to climate risk, or potential taxes, charges or levies associated with environmental harm and pollution.

Access to finance—You may get access to new and cost-effective green loans and gain investor interest and confidence.

Increased social licence—Protecting, restoring and improving the environment is increasingly demanded by consumers and society. Showing that your land management activities match these values can greatly benefit your reputation.

Broader environmental and societal benefits—Sustainable land management leads to improved biodiversity, mitigation of soil erosion, healthier soils, reduced pollutant run-off and more. Beyond the farm gate, these benefits boost the health, wellbeing and resilience of local environments and communities

Risks for landholders

Like all investments, natural capital and environmental markets come with possible risks. It is important to understand what those risks are so you can factor them into your decision making. If you are unsure, seek expert advice.

Political and regulatory—Future policies and regulations, both at the federal and state level, may change specific environmental market requirements, subsidies or taxes.

Market and Business—New and emerging markets may be unstable, and prices or buyer demand could change in the future. If you decide to sell your credits, you may miss the opportunity to demonstrate carbon neutrality, potentially preventing access to premium markets.

Legal—Potential legal matters could include contracts, ownership agreements, planning approvals or penalties, if you don't meet your market or contractual obligations.

Financial—Unbudgeted costs, underfunding, not being fully paid for your activities, project delays, inconsistent or insecure resources, underperformance, or other issues could lead to financial loss.

Performance and compliance—If you don't meet your performance requirements or timeframes you could face financial penalties or other consequences.

Management and technical—You may have to depend on external technical support, or face issues with a lack of technical equipment, insufficient business, legal and administrative functions, and dishonest brokers and intermediaries.

Find out more

Local Land Services can help you understand the natural capital and environmental market opportunities available, and the potential benefits and risks, so you can make the best decisions for your property. We are currently building our services to provide independent advice and help you navigate new opportunities in farming. **For more information visit www.lls.nsw.gov.au**