

Ecosystem Markets: The Purchaser's Perspective

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Three Key Market Participants

- Regulatory Agencies—create the demand for the market
- Landowners/Sellers—provide the supply for the market
- Developers/Purchasers—buy the credits the market provides

Regulatory Agencies—Market Driver or Obstacle?

- Regulatory Agencies as drivers
 - Regulatory agencies enforce mitigation requirements, creating demand for a credit market
 - Regulatory agencies can accept market credits as an alternative to traditional mitigation or offsets
 - Regulatory acceptance creates certainty that reduces the risk to the purchaser and makes the credits more marketable
- Regulatory agencies can kill off markets by:
 - Slow speed
 - Uncertain approvals
 - Lack of resources
 - Competing fee-in-lieu program fees that are less costly
 - Increased transaction costs for approval

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Landowner/Investor/Seller

- Landowners can dedicate all or part of land to be conserved and receive value for it, eliminating the need for resource extraction or consumption to achieve financial goals
- In order to motivate seller to participate, its cost of participation must pencil. Landowner must be assured of a decent rate of return, low transaction costs, and limitation on liability

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Developer/Purchaser

- Developer has choices and ecosystem services markets must provide business benefits to motivate a purchase
- Alternatives may include traditional onsite mitigation, off-site mitigation, fee-in-lieu programs, or traditional remediation measures

Developer/Purchaser's Perspective— What Would Be Required for a Functioning Market

- Regulatory certainty
- Low or comparable transaction costs to other forms of mitigation or offset
- Limitation or elimination of liability
- Speed
- Preauthorized or streamlined regulatory approval

Purchaser's Requirements

- Demonstrated Stability of Bank—requires careful due diligence but provides safeguards for buyer that bank can meet the credit obligations
- Demonstrated Plan for Management—ensures that long-term mitigation plans will be acceptable to the agency so permit holder will not be required to perform additional mitigation

Business Requirements for an Effective Marketplace

- Regulatory agencies have streamlined process to readily accept credits
- Agencies have assurance that banks are accountable and property sites provide intended benefits
- Appropriate legal protections in place such as conservation easements
- Banks take on the risk of liability
- Cost of credit, in spite of transaction costs, competitive with other options for mitigation

Legal Considerations—conservation easements

- Conservation easements protect site from uses inconsistent from mitigation
- Holder has right to enforce terms. In some states, attorneys general can also enforce

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Legal Considerations—Conservation Banking Agreements and other due diligence

- Examine terms of release of legal liability, indemnifications, standard contracting terms
- Due diligence into financial security of transaction—require appropriate documentation of assurances
- Examine title reports and environmental site assessment reports

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Purchaser Experiences from Other Markets

- Reducing barriers leads to more action in voluntary markets—Chicago Climate Exchange
- Gaming the System Possibilities—CDMs and problem of building facilities that create more emissions than would otherwise
- Problem of Additionality
- Location—wetlands markets
- Water quality trading programs—Clean Water Services

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Clean Water Services

- Creative thinking allowed to global approach to permit approval
- Increased environmental and ecological benefits
- Reduced costs to CWS

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Non-Economic Benefits of Ecosystem Services Credits

- Create regulatory trust and goodwill
- Promote better community relationships
- Good opportunity for self promotion of sustainability efforts and green branding
- Internal improvement of employee morale
- External reinforcement of broader business values

Conclusion

Markets must provide:

- Regulatory certainty
- Reduced transaction costs
- Reduced risk of liability
- Efficient and cost effective mitigation
- Potential for management of mitigation in perpetuity or over the life of the credit