Defra's call for evidence on expanding the role of the private sector in nature recovery

Blue text in this document provides the REA's response to some of the questions in Defra's call for evidence.

Consultation webpage: Expanding the role of the private sector in nature recovery - GOV.UK

Deadline: 7th Aug (11:59 pm)

Defra's introduction:

'Over half of global GDP is highly or moderately dependent upon nature and the services it provides, powering our industries, safeguarding our food security and protecting public health. The Office for National Statistics has valued the stock of natural capital in England (excluding oil and gas) at £1.4 trillion, and the annual benefits of service flows from those assets at over £35 billion, larger than any single manufacturing sector.

'It follows that the decline of nature in the UK to historically and internationally low levels, in addition to global nature decline, creates risks to the UK economy and UK companies which are already being realised. According to the Green Finance Institute's analysis, nature-related risks could cause losses to UK GDP of £150 to £300 billion by 2030. Impacts to GDP will be caused by reduced productivity, fragmented supply chains, business disruption and increased costs of insurance, among other factors. Conversely, nature recovery offers opportunities for growth, business development and diversification, innovation, and cost savings.'

Summary of the call for evidence:

The first section of the call for evidence relates to the key role of the environment in the government's economic growth mission and the economic case for business investment in the natural environment. Views are sought on the cross-cutting principles and opportunities that could govern policy development to increase this investment.

The second section seeks views on increasing investment in specific environmental outcomes:

- clean and plentiful water
- nature-based carbon reductions
- access to nature
- flood management
- sustainable land use and food production
- global nature

This is not a consultation and does not represent any firm decisions by government. Rather, it is the next step in an ongoing conversation. Responses will support the further development of policies to increase private sector investment in protecting and improving nature.

REA Response

REA's response is in blue text below; we have answered question numbers 1, 3, 9, 12 and 24.

Outline about the REA

The REA (Renewable Energy Association) exists to promote the renewable energy and clean technology industries, to grow a sustainable industry and decarbonise society as part of the circular economy. It represents a wide range of industry stakeholders and includes dedicated member forums focused on biomass heat, green gas & hydrogen, biomass power, renewable transport fuels, thermal storage, recycling of biodegradable wastes (mainly by anaerobic digestion and/or composting), and energy from waste (including advanced conversion technologies). Our members include generators, project developers, heat suppliers, investors, equipment producers and service providers. Members range in size from major multinationals to sole traders. There are around 500 corporate members of the REA, making it the largest renewable energy and associated clean technology trade association in the UK.

Section 1: Policy Principles on Private Investment in Nature Recovery

Policy principles

1. Environmental improvement is key to economic growth
2. Business investment is key to environmental improvement

Policy approach

Defra is testing 4 objectives it could use to shape policy design, incentivising the private sector to align with Environment Act targets.

1. **Objective 1: Economic growth –** of business sectors, the whole economy, and emergence and expansion of new industries and services in the green economy.
2. **Objective 2: Business certainty –** Government to provide clear, long-term policy and incentives to support a cost-effective, equitable transition to a nature positive economy.
3. **Objective 3: Innovation –** Policy should not be overly prescriptive, administratively burdensome, or inflexible in adapting to change.
4. **Objective 4: Fair and proportionate burden sharing –** approaches include the party responsible for harm pays, the beneficiary pays, and the party with greatest means pays

Q1. Do you agree with the 4 intended objectives for policy to increase investment in nature set out above? (Do you agree with each of the 4 objectives? Any further comments including other factors the government should consider?)

The REA agrees with the premise of this CfE – that private sector investment in nature recovery and preservation is essential. The Green Finance Institute estimates that a minimum of £44 billion of investment over a 10-year period is required to adequately protect and restore nature in the UK. While public funds are a powerful tool to uphold nature protection, they are insufficient to achieve the scale of investment needed. Private investment by the companies who benefit from, and to varying degrees, have an impact on the state of the natural environment is

essential to meet government nature targets, and to ensure sustainable running of these businesses for years to come

As this CfE sets out, the cost of not investing in nature recovery will far outweigh the upfront investment and government and businesses are wise to be attuned to this. A 2024 study published in Nature indicated that even if carbon emissions were cut substantially from today, climate impacts are likely to reduce global economic income by 19% by 2050. These damages outweigh the mitigation costs of keeping climate change below 2 °C by sixfold. Furthermore, continued deterioration of the UK's natural environment could lead to a 12% loss of UK GDP by the 2030s. These findings, which are echoed in numerous other studies, clearly demonstrate that preventing climate and environmental damage today is far more fiscally responsible in the long term.

The government can help to catalyse the kind of investment necessary to not only mitigate these economic losses but create the potential for growth in certain areas, while meaningfully working towards environmental targets.

We are broadly supportive of the objectives set out in the CfE with a few comments.

1. Economic Growth

With an appreciation that growth is the current government's foremost economic priority and that investment in nature must be attractive to private businesses, growth will certainly be a key objective of private sector investment. Yet the overarching aim of nature recovery begs a nuanced perspective on economic growth. Traditional economic growth has been predicated on a model of resource extraction, use, consumption and disposal which has historically been largely incongruous with climate and nature protection.

If the government is committed to achieving its targets to preserve nature, thereby enabling a sustainable business environment for years to come, it will need to think strategically about sectors where it should lend its greatest support for growth. We recommend supporting growth in sectors which will be instrumental in reducing emissions (e.g. renewables and carbon removals), responding and adapting to climate change (e.g. nature-based solutions like natural flood defences), and broadly supporting the Circular Economy, which imagines a different kind of economic success than purely linear 'growth'.

2. Business Certainty

Business certainty is key to any lasting investment. As the CfE sets out, to give businesses the confidence to invest in nature recovery, policy decisions to be taken in view of long-term changes to factors like land suitability. High quality data and modelling is essential to support this. However, as climate breakdown accelerates and creates increasingly unpredictable conditions, it's also important that any government support mechanisms or schemes for investment in nature recovery are designed to be flexible and adaptable. Policies should also be engineered to minimise potential chilling effects on investment that aforementioned climate-related economic losses may cause—as one 2021 study found there can be a 'reduced incentive for future

investment in anticipation of a reduced return' due to climate-related losses anticipated in future.

3. Innovation

We agree that policy must not be unduly burdensome or inflexible to change. The regulatory systems should vet new developments and innovations to avoid serious risk of harm but not unduly slow to the extent they inhibit uptake/adoption of innovations that can support both business and environmental outcomes. The Corry Report finding that regulation needs to be more agile is supported by our own research into REA members' views. In an internal study of 40 REA members earlier this year, when asked "Does the EA keep up with innovation in the waste sector?" 100% of interviewees and over half of survey respondents said "No". A key issue identified was the lack of interdepartmental engagement to support innovation. Interviewees were confused by the EA's lack of willingness to investigate new technologies that helped the environment and moved the waste industry towards a more circular economy.

4. Fair and Proportionate Burden Sharing

The three ways of sharing burden outlined in the CfE—polluter pays, beneficiary pays, and those with the most means pay—are fair and should all be utilised at different times and to different degrees depending on the circumstances, impacts and outcomes.

Q2. Is there evidence from existing domestic or international policies which the government can learn from regarding:

- the benefits of policy action to increase private sector investment in nature?
- the policy actions that are most effective and efficient at increasing private sector investment in nature?
- the risks of policy action to increase private sector investment in nature?

Section 2: Outcome- and sector-specific examples and questions

Outcome 1: Clean and plentiful water – cleaning up rivers, lakes and seas

'Clean and plentiful water is essential to our economy, biodiversity, health and wellbeing…Many industries are heavily reliant on a sustainable water supply, including agriculture, food production, hospitality, power generation and data centres. Parts of England are already facing water shortages, and the national deficit is expected to reach nearly 5 billion litres of water a day by 2050. Constraints in water supply will impact businesses, consumers and the economy as a whole, including by impeding housing development and energy production…

Just as water is essential to economic activity in the UK, good-quality water management has a diversity of beneficiaries: developers, farmers and land managers, food and drinks producers, energy production, and tourism and water sports. Improving natural ecosystem function can improve resilience to flood and drought. We all depend on the water system and benefit from its restoration. We are keen to understand how we can enable these many beneficiaries to invest in nature-positive water management methods…'

Questions

Q3. Which sectors could and should contribute as part of a catchment-based approach to water management for nature recovery?

Objective 4 outlines 3 theories of fair and proportionate burden sharing: polluter pays, beneficiary pays, and those with the most means pay. All three of these apply to water companies, making them one group clearly responsible for investment in water management for nature recovery. Yet the water sector currently leads private sector investment in nature in the UK.

Other sectors who have a role to play in the category of 'beneficiary pays' are those which are particularly water intensive and lucrative, production & distribution of food, construction, manufacturing, and industries dependent on water for cooling such as thermal power and increasingly data centres. The Environment Agency now warns that England faces a five billion litre water shortage by 2055 unless the Government takes "urgent action." These sectors each depend on and benefit from a reliable supply of water and therefore have an interest and fiscal responsibility to ensure effective water treatment and protection of natural water supplies.

Q4. What are the barriers to incentivising sectors that depend on the water system to invest in water outcomes? What actions are needed by government to address these barriers?

Q5. What activities by water companies that support nature recovery have potential to attract additional private-sector investment?

Q6. What should our priorities be when assessing the benefits of environmental enhancement measures proposed by the water sector?

Q7. How can the water sector ensure that opportunities to deliver multiple benefits are considered from the start of investment planning and decision-making?

Outcome 2: Nature-based carbon reductions and removals

'Carbon sequestration, storage and emissions avoidance through nature-based solutions, such as woodland creation and peatland restoration, can provide direct and cost-effective carbon savings that contribute to meeting our net zero targets. These nature-based approaches will play an essential role in counterbalancing residual emissions from hard-to-abate sectors…

High-integrity [voluntary] markets for nature-based carbon are in place in the UK, primarily the Woodland Carbon Code and the Peatland Code. Although they are steadily growing, they are unlikely to reach a significant scale without additional incentives for businesses to buy them. Government has recently consulted on whether to include the Woodland Carbon Code (WCC) in the Emissions Trading Scheme (ETS) and is currently considering responses.

We are supporting the development of codes and standards for a wider range of habitats that can sequester carbon and provide other ecosystem services. We are supporting innovation in this space through our Natural Environment Investment Readiness Fund and working with the British Standards Institution on the Nature Investment Standards Programme to provide certainty on what these new markets need to do to ensure high integrity.'

Questions

Q8. What are the reasons why businesses fund or buy nature-based carbon through insetting agreements or markets such as the Woodland Carbon Code and Peatland Code?

Q9. What are the barriers for businesses in buying nature-based carbon through markets such as the Woodland Carbon Code and Peatland Code?

It is important that Government supports strong Monitoring, Reporting and Verification (MRV) principles for biomass use, and ensures alignment across frameworks… Government-backed certification (e.g. UK Net Zero Carbon Removal certification) and co-funding initiatives can reduce perceived risk and ensure environmental integrity. The Government can further stimulate private investment by providing long-term demand certainty and reducing risks for early projects.

Q10. How can government ensure policies to support tree planting are also effective in unlocking private finance for woodland carbon?

Q11. Which sectors could be further incentivised to use, reuse and recycle timber as a low-carbon material?

Q12. How could businesses which emit greenhouse gases or have negative impacts on biodiversity be further incentivised to fund or buy nature-based carbon reductions and removals, in line with the polluter pays principle?

The private sector should be motivated to invest in nature by the prospect of risks and losses. However, the government can also leverage additional incentives such as voluntary schemes to incentivise businesses to invest in nature recovery commensurate with the harm they do. For instance, this could involve a scheme in which businesses that undergo an independent assessment of their negative environmental impacts (including costings) and then invest a significant portion of that cost into approved nature recovery initiatives that mitigate the harms they do, can then receive tax abatements.

Government could also commit to make public procurement dependent on strict environmental standards (e.g. accreditation to B-corp, ISO 14001, etc.). The standards will vary depending on the services/goods being procured but climate and nature protections should be a primary criterion of all accepted standards.

REA welcomes that Defra is supporting the development of codes and standards for a wider range of habitats that can sequester carbon and provide other ecosystem services. We perceive that BSI's Flex standards relevant to nature markets (https://nature-investment.bsigroup.com/) could play a role in incentivising businesses to fund or buy nature-based benefits. We note the existence of 'BSI Flex 703 - Nature Markets - Supply of nature-based carbon benefits standard' and 'BSI Flex 704 - Nature Markets - Supply of nutrient reduction benefits' (a standard that sets additional requirements - on top those set in BSI Flex 701 - for the generation, storage and trading of units across UK nutrient mitigation markets.

Outcome 3: Access to nature – supporting tourism, recreation and wellbeing

'Protected Landscapes provide important benefits in supporting internationally important habitats, wildlife, and heritage and provide access to beautiful green and blue spaces to almost 270 million visitors a year. Although they cover just one quarter of England, they contain half of our priority habitats and sites of special scientific interest (SSSIs) and will provide the backbone to achieving 30by30 on land in England (protecting 30% of land for nature by 2030)… Nature recovery in Protected Landscapes is therefore key to securing resilient, long-term growth.

Protected Landscapes are also living landscapes where businesses thrive. We want to support businesses to do this in a way that is regenerative for nature, climate and communities. Protected Landscapes organisations are particularly well placed for integrated and place-based delivery, breaking down silos to recover nature in a way which protects communities from flooding, fights climate change and grows the rural economy…

We are seeking views on ways to bring in greater, and more diverse, sources of funding into our Protected Landscapes to ensure that these national assets achieve their full potential – becoming greener, wider and more accessible. We want to ensure no-one lives more than a 15-minute walk from a green or blue space.'

Questions

Q13. What measures could be used to increase and diversify funding to ensure our Protected Landscapes are sustainably resourced?

Q14. Would you support greater application of the beneficiary pays principle in Protected Landscapes?

Q15. Would you support greater application of the polluter pays principle in Protected Landscapes?

Q16. What are the benefits, and barriers, to businesses investing in actions which help to contribute to 30by30?

Q17. In order to support access to green spaces in more urban settings, what measures could be used to increase and diversify funding for local parks and natural spaces?

Outcome 4: Flood management

'Land which is enabled to function naturally can play a central role in protecting against flooding, which is happening with increased frequency and severity. Flooding is currently the UK's most costly natural hazard, with damages and the associated investment in flood risk reduction costing the UK around £2.2 billion annually. Natural flood management interventions upstream of populated centres can reduce flood risk to those areas, as can restoring habitats and natural processes within the urban environment itself. A recent report commissioned by RSA Insurance and the Wildlife Trusts projected that the costs of flood risk for business will increase by 27% by 2050, resulting from damage to sites, business interruption and lost production time. The same report found that natural flood management projects could deliver up to £10 of benefits for every £1 invested over 30 years.

Natural flood management can offer many additional benefits, including improving water quality, reducing storm overflows, reducing soil erosion, increasing carbon capture and storage, and creating

new habitat to support biodiversity… local benefits of natural flood management methods are not yet being widely harnessed to fund flood management. This consultation seeks views on how this funding could be enabled.

Questions

Q18. Which of the beneficiary sectors of natural flood management are best placed to contribute to funding it?

Q19. What mechanisms could best enable this?

Q20. How can mechanisms such as these account for and adapt to the local nature of natural flood management?

Outcome 5: Sustainable land use and food production

'*The food and drink industry and the agriculture which underpins it are foundational to our food security and economic resilience. These sectors are also heavily and directly reliant on the natural environment… Increases in agricultural productivity have enabled the UK's population to grow from the same amount of land. But agricultural intensification and land use change have been the biggest driver of biodiversity loss terrestrially, and overfishing is the lead driver of marine biodiversity loss. Soil degradation was calculated in 2010 to cost £1.2 billion every year. Agricultural production is also a significant source of greenhouse gas emissions, [yet] in the UK have reduced by 12% since 1990 (as of 2022), with many farms using more efficient agricultural practices.*

Many food and drink businesses already recognise the resilience, productivity and efficiency benefits of investing in nature and carbon reductions and removals in their own supply chains, or using voluntary offset markets, as part of their organisational strategies. However, without a regulatory requirement to do so, there may be a first mover disadvantage or challenges to build the internal business case for investing in nature.

This call for evidence seeks to understand where there are opportunities to introduce such incentives, placing greater responsibility on processors and retailers, who are price setters for primary produce from farms and fisheries, to improve the overall environmental performance of their supply chains. Farmers must be enabled to invest in long-term sustainable practices, and we must ensure that they get their fair share of the benefits for the services they help nature to provide.'

Questions

Q21. What policies or financial models have been most successful in improving environmental performance and sustainability within the food and drink sector? Please provide evidence.

Q22. What further measures would be most effective in incentivising the food and drink sector to reduce its impact on nature and increase its investment in nature recovery?

Q23. How can measures best be designed to ensure fair distribution of costs and accountability across the food and drink supply chain, and to avoid putting domestic farmers at a disadvantage?

Q24. How can measures recognise and mitigate the impacts of the wider bioeconomy on land (for example, the use of natural fibres, timber, paper and pulp)? Which sectors are most important?

The Outcome 5 section should include a question about how measures can recognise and valorise contributions from the bioeconomy to sustainable land use and food production; we raise some important points here about the need for government to establish coherent policy links between biowaste recycling, soil health and food productivity. Our points are drawn from content of Carbon Clarity's 'think piece' document The Soil-Food-Biowaste Policy Disconnect in England: The Case for Policy Coherence (attached with our response).

In the face of the triple planetary crisis (climate change, pollution and biodiversity loss – info at https://unfccc.int/news/what-is-the-triple-planetary-crisis) it's urgent we manage soil, food production and biowaste sustainably.

In England, 'whilst there are established policy links between agricultural soil and food production, policy links between biowaste recycling and soil are effectively non-existent' and we ask government to 'fully recognise the myriad of benefits that result from applying recycled biowaste, and, in particular, compost, to soil; and then to take this into account in its environmental policy making'.

'As compost is known to enhance natural capital stocks and improve soil's ability to perform essential ecosystem services, a natural capital approach to assess its benefits for the purposes of environmental policy making would make perfect sense; after all, there is sufficient supporting scientific evidence.'

HM Treasury, in its Central Government Guidance on Appraisal and Evaluation ('The Green Book') (HM Treasury, 2022), provides advice on "assessing and valuing effects on the natural environment" and in 2023 Defra published its own valuation tools and evidence (Enabling a Natural Capital Approach, https://www.data.gov.uk/dataset/3930b9ca-26c3-489f-900f-6b9eec2602c6/enabling-a-natural-capital-approach) in support of the UK's Natural Capital Accounts.

What should be done asap is **appraisal of the benefits of applying biowaste-derived compost to soil using natural capital accounting methods, and making progress towards harmonising soil health metrics and adopting them for policy making purposes.**

These points summarise policy recommendations made in the 'think piece' document referred to above:

1. **Establish coherent policy links between biowaste recycling and soil improvement using natural capital accounting methods**:
    a. implement this in the short-term through the [up-coming reformed] Sustainable Farming Incentive [offer] (see https://questions-statements.parliament.uk/written-statements/detail/2025-05-12/hcws626); and
    b. include this in the longer term in the 2028 update to the 25 Year Environment Plan.

2. Create demand for compost by **making specific reference to BSI PAS 100 certified products in Sustainable Farming Incentive agreements** and **fund this at an appropriate rate** (equivalent to between £30 - 60 / tonne of biowaste).
3. **Adopt a systems-based approach to future soil, food and biowaste policy making**.

ISWA's report Benefits of Compost and Anaerobic Digestate when applied to Soil (published in 2020, and is attached with REA's response) explains and summarises a range of benefits to soil from applying 'organic amendments', its benefits list focussing on those specific to waste-derived composts and digestates, these renewable resources differing in types and extents of benefits they confer to the soils to which they are applied.

Benefits of compost and anaerobic digestate when applied to soil

a. Greater amounts of carbon remain in the soil when organic wastes are composted, rather than applied directly.
b. Compost can be classified as an organic soil improver, as it contributes towards a soil's organic matter content.
c. Organic matter in compost is further transformed through soil microbes into more stable forms of carbon in soil.
d. Compost has the potential to sequester carbon in soil:
    i. Studies have shown that over a period of 4 - 12 years between 11% - 45% of the organic carbon applied to soil as compost remained as soil organic carbon.
    ii. Soil organic carbon increases of between 50 - 70 kg C ha^{-1} yr^{-1} t^{-1} dry solids applied as compost are possible.
    iii. Every tonne of soil organic carbon holds the equivalent of about 3.67 tonnes of atmospheric carbon dioxide.
    iv. 1 tonne (fresh mass) of green-waste-derived-compost applied to soil over one hectare (10,000 square metres) results in a net $CO_{2\text{-eq}}$ saving of 143 kg ha^{-1} $year^{-1}$ due to the increase in soil organic matter alone.
    v. The main benefits to soils are realised in the first 20 years until a new organic matter equilibrium is reached.
e. Repeated compost application increases soil aggregate stability and soil pores, reduces compaction and increases water holding capacity.
f. Applying compost to soil has been shown to increase soil microbial biomass and microbial activity, and build up a pool of plant nutrients.
g. Digestates can be classified as an organic fertiliser, as their main function is to supply plant nutrients.
h. The long-term benefits to soil of anaerobic digestate are less clear cut than those of compost, and it is thought that it has a negligible effect on soil organic matter in the long term.
i. Increases in soil microbial activity have been measured following digestate application.
j. The significant benefit of applying digestate to soil is due to its high nutrient content.

Q25. What measures could be used to increase investment in sustainable timber production and processing, and timber reuse and recycling?

Outcome 6: International nature finance and access and benefit sharing

'Many UK businesses rely on global supply chains that depend upon healthy soils, clean water, and pollination. Around half of UK's nature-related risk originates overseas, embedded in supply chains and financial exposures. An estimated £3.8 trillion in UK financial assets are underpinned by global natural capital, much of which is highly dependent on ecosystems that are rapidly deteriorating. We need nature to thrive everywhere to secure sustained growth and prosperity in the UK and worldwide.

International nature markets are nascent but are showing promise as a tool to drive private sector investment in nature…The UK is supporting schemes such as the International Advisory Panel on Biodiversity Credits to help promote high integrity in international markets, and domestic expertise can also be leveraged to help inform market design in other jurisdictions. Lessons from carbon markets can also inform the design of emerging nature markets. High integrity markets are vital to delivering real outcomes for people and the planet. Poor governance, weak verification, and opaque reporting can undermine trust and lead to further nature degradation.

The UK is also backing the Taskforce on Nature-related Financial Disclosures (TNFD), a global, market-led initiative that provides a voluntary framework for assessing and reporting nature-related risks. The TNFD enables businesses and financial institutions to integrate nature into strategic planning and risk management, supporting a shift toward a nature-positive economy.'

Questions

Q26. Are you aware of your international nature-related risks, dependencies and impacts, for example, through using frameworks such as the TNFD? If so, how do you manage and address them?

Q27. What role is global nature playing in your investment strategy? For example, are you exploring investing in international ecosystem services, including biodiversity credit markets, or avoiding certain types of investments due to their impacts on nature? What would help you better integrate nature into investment decisions?

Q28. How can the UK help ensure that biodiversity co-benefits are integrated into international carbon markets, and vice-versa? How has your experience with carbon markets influenced your approach to nature markets?

Q29. Does the concept of access and benefit sharing apply to your organisation or sector? If so, how do you incorporate benefit-sharing into your business model?

Q30. What are the key challenges to investing in nature-based opportunities in biodiversity-rich countries? What can policy makers and market enablers do to help scale international nature investment and better connect supply with demand?