WHITE PAPER

Facing the nature challenge

Implications of the EU Nature Restoration Law for states and companies

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Executive Summary

The interdependency between nature and human prosperity is undeniable, underpinning not only our global economy but also our very existence. Europe, despite making strides towards conservation, has been witnessing a stark deterioration of its natural assets, thereby endangering ecological equilibriums, livelihoods, and associated parts of the economy. The European Union (EU) Nature Restoration Law has emerged as a crucial act of legislation aimed at redressing this ecological crisis. It seeks to revitalize ecosystems, and promote enduring climate action, food security, and economic vibrancy.

With the aim of meeting the objectives of commitments stated in the UN Kunming-Montreal global biodiversity framework, and consistent with EU Biodiversity Strategy 2030, the law sets out ambitious restoration targets: 20% of EU's terrestrial and marine areas by 2030, with a particular focus on Natura 2000 sites; 60% of compromised habitats by 2040; and an overarching restoration of 90% of all ecosystems in need by 2050. Furthermore, it outlines specific targets regarding pollinator populations and distinct ecosystem obligations encompassing agricultural lands, peatlands, urban greens, forests, and rivers.

Member states are mandated to devise and implement robust measures by 2030 to rehabilitate at least 30% of habitats in poor condition. They are also required to articulate restoration plans within stipulated timelines, setting out strategies for ecosystem recovery, and to provide routine updates on the progress and outcomes achieved.

This legislative enactment is anticipated to echo the trajectory of climate regulations in the EU, where international accords such as the Paris Agreement have spurred national and corporate regulatory adaptations. The EU Nature Restoration Law is expected to catalyze a cascade of nature restoration agendas, starting from the EU level and then rippling down to member states and ultimately to corporate entities via local legislation. Companies must therefore equip themselves in advance for these forthcoming requirements by developing the necessary competencies, and undertaking a broader deliberation on strategic priorities for resilient and sustainable growth.

Introduction: The nature challenge

Nature is the bedrock upon which our global economy thrives, supporting human existence with ecosystem services valued at around US$150 trillion.[1] In the European Union (EU) alone, seven selected ecosystem services were estimated to be providing an annual value of more than €172 billion in 2021.[2]

However, nature is facing significant challenges across the world. In Europe, the natural environment is undergoing severe degradation, posing a significant threat to biodiversity and human well-being. This is despite conservation efforts through the Birds and Habitats Directives, which govern EU's Natura 2000 sites (a network of protected areas). The EU's 2020 assessment presents a bleak outlook, with 80% of habitats in poor condition, 10% of bee and butterfly species at risk of extinction, 70% of soils unhealthy,[3] and around 16,000 assessed species on the EU Red List.[4] This decline in biodiversity and ecosystems is not only affecting the natural world, but also has far-reaching socioeconomic consequences.

1. BCG analysis based on "Changes in the global value of ecosystem services", R. Costanza, R. de Groot, P., S. van der Ploeg, S. J. Anderson, I. Kubiszewski, S. Farber, R. K. Turner, 2014. Values inflation-adjusted
2. Mapping and Assessment of Ecosystems and their Services: An EU ecosystem assessment 2021, https://publications.jrc.ec.europa.eu/repository/handle/JRC120383
3. https://www.consilium.europa.eu/en/policies/nature-restoration/
4. The IUCN Red List of threatened species

Natura 2000 sites have been supporting approximately 174,000 jobs, including 104,000 direct jobs in protected areas management and conservation activities. Indeed, 1.3 million of the 9.6 million farming jobs in the EU are linked directly or indirectly to Natura 2000, while 3.1 million of the 12 million people employed in the tourism sector in the EU have links to protected areas such as Natura 2000. Rapid destruction of nature is adversely affecting livelihoods and the industries closely linked to it.

Excessive resource extraction and the environmental impact of businesses across their value chains are putting pressure on natural ecosystems, whereas industries that rely heavily on these resources are undergoing increasing strain. Construction, Agriculture, and Food and Beverage are the economic sectors in the EU most reliant on nature.[5] Moreover, sectors such as Chemicals, Tourism, Real Estate, Mining and Consumer Goods also depend through their supply chain on nature for more than 50% of their gross value added.[5]

Recognizing the growing urgency of the nature crisis, EU regulators approved the Nature Restoration Law, which aims for conservation of natural ecosystems and sustained economic growth. According to the 2020 EU commission study,5 nature restoration can reap many economic benefits. For example, preserving marine ecosystems could boost the annual profits of the seafood industry by more than €49 billion, while protecting coastal wetlands could save the insurance industry approximately €50 billion each year by minimizing flood damage losses.

EU regulatory response: the Nature Restoration Law

The EU Commission had first put forward the proposal for Nature Restoration Law in June 2022. The law aligns with the UN Decade of Ecosystem Restoration, the EU Biodiversity Strategy 2030, and the UN Kunming-Montreal global biodiversity framework. The EU Council and Parliament reached a provisional political agreement on the law in November 2023. This will have to be endorsed and formally adopted by the co-legislators before entering into force. Member states will then need to submit their first nature restoration plan to the Commission within two years of the law becoming effective. This journey is expected to work in a similar way to the evolution of climate-related action. This reflects EU's regulatory stewardship across the globe, where the international pledges such as the Paris Agreement have ultimately been translated into a network of local regulations under the EU Green deal.

The law signifies the EU's broader legislative momentum toward nature conservation and restoration. This is demonstrated by the EU's European Sustainability Reporting Standards (ESRS) under the Corporate Sustainability Reporting Directive (CSRD) approved earlier this year, which explicitly weave nature and biodiversity concerns into corporate reporting and sustainability practices. These initiatives are further bolstered by recommendations from international bodies such as the Science Based Targets Network (SBTN) for target setting, and the Taskforce on Nature-related Financial Disclosures (TNFD) for risk management, assessment, and disclosure. Moreover, the International Sustainability Standards Board (ISSB) is considering nature and biodiversity as a priority topic for further development on standards evolution, underscoring the growing global emphasis on ecological transparency and accountability.

5. The business case for biodiversity: European Green Deal, May 2020

Objective and targets of the EU Nature Restoration Law

Drilling down into more detail, the law aims at sustained recovery and conservation of natural ecosystems to achieve its objective of climate mitigation and adaptation, and enhance food security. Its objective is to restore 20% of EU's land and sea area by 2030 (with a specific focus on Natura 2000 sites); 60% of habitats in poor condition by 2040; and 90% of all ecosystems in need of restoration by 2050. The regulation includes a requirement to prevent further deterioration of areas subject to restoration and areas that are already in good condition (including habitats beyond the Natura 2000). A results-based obligation is imposed for the former (i.e. restoration initiatives for degraded sites), and an effort-based obligation for the latter (conservation initiatives for the ecologically healthy sites).

The law also sets out the following targets relating to pollinator insects and ecosystem-specific obligations:

- For pollinator insects, targets include increasing populations by a certain percentage within a specific timeframe: for example, a 50% increase in bee populations by 2030

- Peatland goals include restoring 30% of drained peatlands for agricultural use by 2030, 40% by 2040, and 50% by 2050, as well as promoting biodiversity and reducing greenhouse gas emissions.

- Urban green areas must significantly increase by 2030, without a net loss of green spaces

- Removal of manmade barriers in EU rivers to ensure greater continuity in river networks and 25,000 km of free-flowing rivers by 2030

- For the benefit of forest ecosystems, and to strengthen biodiversity and indicators such as standing and lying deadwood and the common forest bird index, member states must contribute to the planting of at least three billion trees by 2030 across the EU.

- For agricultural ecosystems, positive trends should be demonstrated in at least two of the following three indicators: grassland butterfly index, the proportion of agricultural land with highly diverse landscape features, and organic carbon stock in cultivated mineral soils. The law also sets time-bound targets to improve the common bird index in agricultural land at a national level.

The law requires member states to disclose and execute restoration plans for measures to achieve restoration targets in respect of urban, terrestrial, coastal and freshwater ecosystems. These plans should outline specific strategies for ecosystem recovery, and provide regular updates on implementation and the results achieved.

It is emphasized that member states are expected to put in place measures to restore at least 30% of habitat in poor condition by 2030. This includes wetlands, grasslands, forests, rivers and lakes, as well as marine ecosystems, including seagrass and sponge and coral beds.

Furthermore, they are required to present restoration plans while taking into consideration various socio-economic and cultural needs, according to the following timelines:

- by June 2032 for the period until 2042

- by June 2042 for the remaining period until 2050

The road ahead – how companies should react

We can expect the trajectory of nature regulation to mirror that of climate regulations in EU, where alignment with international conventions has spurred the development of national and local legislation, which ultimately has an impact at the corporate level. For example, commitments under the Paris Agreement 2016 inspired the launch of the EU Green Deal in 2019 and the EU Climate Law in 2021 (followed by climate-related corporate disclosure obligations under CSRD in 2023). This regulatory momentum then moved on to member states. Germany, for example, introduced the Federal Climate Protection Act in 2019, which implemented a national carbon tax to align with the EU's climate neutrality targets.

On a similar note, restoration targets set by member states could be cascaded down to the corporate level through local legislation. For example, in a pattern observed for climate regulation, companies could be mandated to comply with minimum targets, while those in specific sectors could be required to develop transition plans. Companies should therefore act proactively to build the necessary capabilities for this likely evolution, before regulations force them to do so.

Given the close ties between businesses and their value chains, and the potential impact on stakeholders, it is crucial that companies swiftly grasp and tackle the challenges they face. Managing the complex issues related to nature and understanding how they affect business operations and plans demand new skills, and a carefully considered all-encompassing approach. Taking such an approach will enable companies to set clear goals, rethink their main priorities, and start to act accordingly. Although the journey may be long and difficult, it will allow leaders to see clearly what lies ahead and strive to create a more sustainable company in every way.

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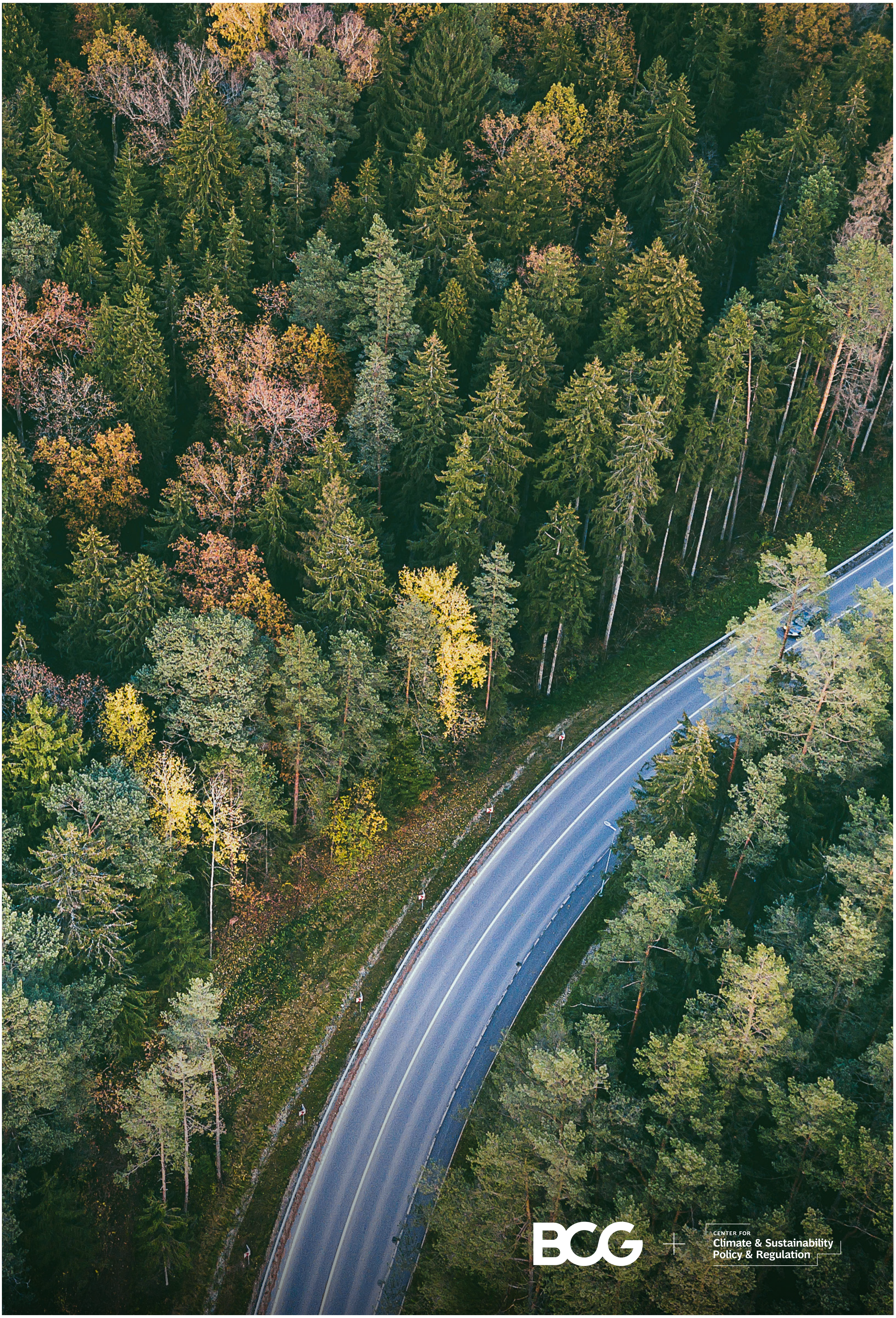
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