# This image contains the Threatened Species Recovery Hub logo and text saying this script explains some of the concepts and challenges central to biodiversity offsetting and ecological compensation in plain language

# Video 6. Offset rules: Setting constraints and requirements to help make offsets more effective

Deciding what makes a suitable offset requires a combination of a calculation approach to ensure that gains are at least the same size as losses, as described in videos 4 and 5, and a set of rules, set by the policymaker, that determine what sort of exchanges are acceptable.

Offset rules are useful for setting constraints whenever we want an offset to have certain characteristics in addition to ensuring that the gain is at least as large as the loss. Using rules can help avoid the unintended substitutions we described in Video 3. For example, they can help avoid a situation where an offset with a gain smaller than the loss can be permitted just because the offset is in a desirable location. Instead, if the offset should be located in a preferred area, like a strategic conservation corridor, then setting that as a rule is better than including it as part of the calculation of the size of the gain. Also, if we want to avoid exchanging a loss of a smaller area of high-quality habitat for a gain of a larger area but of low-quality habitat, we can make a rule that the offset site needs to achieve a quality score at least as high as the impact site.

**Spatial trading rules**

One frequently encountered question in offsetting is how close offsets should be to the impact site. The further away we move from the impact site, the more different the habitats and species that live in them are likely to be, and so like-for-like offsetting becomes more difficult. Also, compensating the loss of a species that is very rare in the region where the loss occurs by creating a gain in another region where the species is very common is not necessarily a desirable exchange. Stakeholders affected by the biodiversity loss from the development may not be adequately compensated if offsets are far away. For these reasons, offset rules often require offsets to be in the same region, benefit the same population of the species, or be located within a certain distance of the impact site.

However, the larger the area over which trades can occur, the more options for offset locations there are likely to be. So, a rule that requires offsets to be very close to the impact can reduce options for offsetting, potentially increasing the cost of the offset if the only potential offset locations are difficult to secure or manage. Increasing spatial flexibility, on the other hand, is likely to reduce the overall similarity between impact and offset sites. Finding the right balance is therefore important.

**Out-of-kind compensation and trading-up**

Like-for-like, sometimes called in-kind, trades are the standard for offsetting, but some offsetting programs allow out-of-kind compensation. This is where losses of one biodiversity feature are compensated with gains for a different biodiversity feature. This allows greater flexibility, but it also raises concerns about the equivalence of the trade. Weighing one type of biodiversity against another is challenging, and requires explicit, quantitative statements of the relative value of each – effectively an exchange rate, so that we are transparent about how much of one biodiversity feature is worth how much of another. The problem is that if we are intending to offset a loss of a biodiversity feature, it is usually because we have already determined that we value that particular feature and want to achieve no net loss for it. But departures from like-for-like mean that a tradeoff, rather than a no net loss outcome, becomes the aim. Such actions therefore do not strictly qualify as biodiversity offsets.

If out of kind compensation is considered acceptable, then it should always be done by ‘trading up’. This means that losses can only be compensated with gains for a more threatened, rarer or higher priority feature than the one that suffered the loss. But ultimately, decisions on what constitutes an acceptable out-of-kind trade are necessarily subjective.

**Indirect offsets**

Sometimes, especially when knowledge about the biodiversity features in question is poor, a biodiversity loss might be compensated with an ‘indirect offset’ such as funding for monitoring and research, so that better and more effective offsets can be designed in the future. But this is not strictly an offset if no measurable gain is achieved to counterbalance the loss. The funding of monitoring and research is often a necessary precursor to designing an offset – but unless the actions to generate a biodiversity gain are also done, then the ultimate goal of offsets – achieving ‘no net loss’ - is not possible.

In summary, trading rules determine what types of exchanges are acceptable. Rules include things like: the condition of the offset site must be at least as high as the impact site; offsets need to be within the same bioregion as the development site; and gains have to be for the same biodiversity feature as was impacted by the development. The rules that the decision-maker sets when determining an offset or an offset policy can be valuable ways to ensure offsets are equitable, ecologically equivalent, and in line with community expectations.