

## Further evidence and response from Witnesses to meeting of Committee of Net Zero, Energy and Transport on 26<sup>th</sup> March 2024

Witnesses contributing: Dr Naomi Beingessner (James Hutton Institute), Dr Lydia Cole (University of St Andrews), Dr Josh Doble (Community Land Scotland)

This briefing has been produced by the three witnesses above who gave evidence on 26<sup>th</sup> March 2024. It expands upon themes and points which there was not time to discuss fully at Committee but which we are all aligned on.

### 1. Large-scale nature restoration vs large-scale land ownership

Scotland's uniquely **concentrated landownership** pattern has resulted in having one of the **most depleted ecosystems** in the world.

Landscape scale restoration is required to achieve targets (see next point) but does not necessitate single large-scale landownership – it needs **collaborative partnership working** as we are already seeing across Scotland and the rest of the world (and as called for in the *Interim Principles for Responsible Investment in Natural Capital*).

The *Interim Principles for Responsible Investment in Natural Capital* are potentially valuable and comprehensive guidelines for nature markets to achieve more than the mobilisation of private finance. The question is **how to enforce** these “should do” principles? And if successfully enforced, can there still be financial returns expected at the level private financiers will expect?

Partnerships working at landscape scale, such as the [Heart of Scotland Forest Partnership](#), may be slower to establish due to involving the diversity of landowners and users in a landscape, but, as a result, often lead to much **less conflict and much greater success and long-term resilience** in achieving restoration and/or conservation goals.

As an example, neighbours in Europe are not rushing to concentrate their landownership to fight climate and biodiversity crises.

### 2. Non-financial barriers and opportunities to achieving nature/climate targets

We suggest that prioritising the mobilisation of private finance is not getting us closer to achieving climate targets. The more important, and primary question to consider is the **scale of action required** to achieve national goals.

For instance, **which and what volume of resources**, in terms of trained contractors, equipment, locally-appropriate and healthy saplings, etc., do we need to reach restoration goals in conjunction

with other social and ecological benefits? And how can they be used most effectively (building up future capital)?

An **evaluation of the opportunities** to decrease deer populations, plant trees, restore peatlands and other ecosystems across Scotland, taking into consideration the nature of landownership and land use in the locations identified, will be a first step in developing an integrated and holistic landscape management plan from which a more accurate assessment can be made of the funding required for **supporting locally appropriate interventions**. This form of opportunity mapping would also highlight **barriers to participation** in different situations.

In some locations, an **adjustment in current government subsidies**, e.g., implementation of payments for regenerative farming and nature restoration on agricultural land (such as [POBAS](#)), may be sufficient for achieving net zero goals over time. In other locations, there may be opportunities for regulated private investment to support landscape-scale (collaborative) initiatives that require large scale, integrated management and monitoring plans over time.

In other locations still, remote assessments of the condition of a peatland, without consultation with local stakeholders who may have accessed these landscapes for generations, might be inaccurate or outdated, feeding into a false evaluation of the finance gap required to achieve net zero goals. For any landscape-scale, nature-based initiative to succeed, especially under a changing climate, there must be the space, resources and philosophy to take a **'test and learn' approach**, where interventions can be adapted over time to **best suit changing local conditions**. The Community Landownership Academic Network ([CLAN](#)) can provide support for engaging with communities in the Highlands and Islands.

Mention was made during the meeting of the Committee that Scotland is disadvantaged in its size, lacking vast landscapes for forest planting or peatland restoration, and thus opportunities for large-scale carbon credit generation. On the contrary, the relatively **small size of Scotland** in comparison to European neighbours, provides a **valuable opportunity to achieve the desired 'high-integrity'** in carbon offsetting and nature restoration projects (more for less) that also align with community wealth building and a just transition.

Focusing on **smaller-scale projects** that are **co-designed** with and for local communities, landowners and land managers, and which centre the **ecological integrity** of the initiative, are much more likely to be successful in achieving net zero goals on the ground. Working with/at the scale of hydrological units is, for example, a necessary principle of any effective peatland restoration initiative.

A smaller-scale, locally-grounded approach will also provide an opportunity for **integrating diversification** (of ecosystems, landownership and management) into our approach to nature-based

climate change mitigation, **building resilience** into our planning and practice. The relationship between diversity and resilience is a standard, proven principle in nature, society and economy.

### 3. The implications of derisking private finance using public funds

The Scottish Government have published research on potential ways of encouraging private finance in natural capital through 'de-risking' investment - [Mobilising private investment in natural capital \(www.gov.scot\)](https://www.gov.scot).

Due to the uncertainty around carbon markets the current natural capital financing system does not deliver commercially investable propositions with the returns necessary for private financiers. Research commissioned by the Scottish Government has argued that public money needs to be used to 'de-risk' private finance through guaranteeing carbon prices, providing operating payments or 'first-loss' capital.

These proposals have the potential to be a **significant cost to public expenditure** and could end up being more expensive than direct public investment – while adding significant risk and uncertainty to Scotland's public finances.

Considering the high risks at stake and the observed tendency to sell PIUs upfront, de-risking will require the **public to carry the burden**, which potentially exceeds restoration costs without private sector incentives.

Polluter pays principle: If anyone should financially benefit from carbon offsetting payments, it should be those committing/forfeiting their land access/use to restoration. Those that seek offsetting should not profit from or use public funds (see [UK Environmental principles policy statement](#), 2023).

The individuals that most require support to navigate future risk are those managing the restored peatlands/planted forests/ecosystems on the road to recovery; with exposure to future climatic changes and associated disturbances, such as fires, we need to consider **who carries the financial liability** of consequential changes in carbon stocks so as to spread the burden of loss, especially amongst those with the resources to mitigate losses.

### 4. The disputed 'finance gap' in natural capital

Much of the discussion around natural capital financing is driven by the £20bn figure from the 2021 report published by the Green Finance Institute. This **figure has been discredited**, as it was largely based on unnecessary land acquisitions – removing this, the resulting figure is much smaller.

Future Economy Scotland has previously estimated that it could be as little as £118m per year, which amounts to around 0.2% of the Scottish Government's annual budget. Whether the 'gap' is millions or billions has significant **repercussions for the scale of private finance required**.

As we have noted above the fixation on the scale of financial investment needed is distracting government and public bodies from the considerable **scale of action** which is required. This action which can be **achieved through a number of policy levers** outlined in this briefing and the briefings sent to the Committee before the session.

### 5. Community Benefits

The Committee asked questions relating to community benefits, and the witnesses on the first panel made reference to a number of apparent 'community benefits' such as access rights and improved flood mitigation which are actually **public benefits**, distinct from local community benefits.

Moreover, **carbon credit projects are risky**, income is uncertain and long-term maintenance obligations are unknown. Therefore, any **community benefit opportunities** will be very **limited** and putting a value on them will be very difficult at this stage (see section on 'green' land investment below).

There is a misconception that community benefits from natural capital projects may offer an opportunity akin to the community benefit structures from renewable energy (which themselves need significant reform), however the uncertainty around financial models means this is not the case.

### 6. The relationship between PIUs (Pending Issuance Units) and the achievement of net zero goals

PIUs are essentially **predicted carbon reductions** which would be realised through future planned interventions, if successful.

PIUs have been designed to motivate the selling of promised carbon units early on in the project to generate more short-term financial rewards. So far, there has been a limited retention of PIUs that would enable translation into PCUs, the latter of which demonstrate achieved carbon reductions in the long-term.

**Future uncertainty and risks**, e.g., of carbon credit price drops, changes in regulations, etc., around most aspects of the carbon market incentivise the selling of PIUs upfront. However, this upfront selling **undermines sound long-term financial governance** that a Peatland Code project demands and that enables individuals to respond to risks.

## 7. Who owns the rights to carbon?

There is still **uncertainty over who owns the rights to carbon** stored within landscapes. Various scholars are exploring this topic, such as Dr Jill Robbie (University of Glasgow), with the goal of supporting individuals and communities to make more informed decisions in relation to carbon finance.

Carbon rights should **not exclusively lie with landowners** and the Peatland and Woodland Codes need to provide **appropriate guidance** on this topic. As further ‘codes’ are developed, e.g., biodiversity credits, community bonds, etc., questions over ownership of commodified units, and rights and responsibilities for the same, will also come into question.

Any additional assets will need to be standardized (across diverse social-ecological systems), measured and monitored over time (by whom? at what cost?), de-risked, marketed, sold, maintained, all at cost and under contract. **Are more codes necessary, and feasible?** We argue that current policies and payments can be redesigned to prevent adverse impacts and motivate positive relationships between people and ecosystems, rather than focusing on producing more codes.

## 8. Land Reform Bill 2024

The Committee has an important role to play in **scrutinising the Land Reform Bill**, ensuring that it is considerably amended and strengthened in order that it will actually deliver opportunities for land ownership diversification. This would have a number of benefits for Scotland’s natural capital:

- **Ownership diversification** opens up the land market for different population groups, **diversifying who can benefit** from natural capital.
- If communities have control over land and how it is used/managed, they feel more responsible towards maintaining it. This is demonstrated through community ownership of land where the principal concern is ensuring that the natural and human ecology of the local area is sustainable and thriving.
- More diversified land ownership enhances a sense of belonging to local landscapes and communities and increases engagement with governmental bodies. It **strengthens democracy**.
- The fewer people owning/controlling land, the fewer people there are to feel responsible and invest in caring for the landscape and its ecosystems.
- Land “fragmentation” (otherwise described as ‘diversification’) increases range of use and with this range of species and range of income streams, making **ecosystem and economy more resilient**.
- Diverse landowners bring about **cultural diversity**.
- Diversity is an indicator for **resilience** in all aspects of life

## 9. Socio-economic impacts of 'green' land investment

James Hutton Institute research on the social and economic impacts of green land investment in six cases across Scotland found that both **positive and negative impacts** were perceived and realised, **dependent on the motivations and activities of investor-owners**.

Benefits in some cases included: increased accessibility, transparency, and community engagement with estate activities; investor-owner support for community initiatives and housing provision; and increased tourism activity and employment.

Negative impacts included: loss of employment and effects on local service provision; decrease of housing availability due to conversion and increased market prices; a perceived increase in risks such as fire due to land management changes; and, critically noted in all cases, a perceived lack of community involvement in decision-making.

Concerning the just transition, across several of the case studies, estate employees were made redundant or reassigned to new roles. Agricultural production and numbers of tenants declined.

The research recommended that **policy makers** should:

- a. Consider **greater regulation of the natural capital market** and to remove barriers to participation by tenant farmers and crofters.
- b. Consider ensuring that a proportion of green land investment **profits are shared with communities** of place that are affected by investment activities, e.g., establishing minimum community benefit payments from developers.
- c. Consider **how best to support farming and gamekeeping communities** in the just transition.

It recommended that **green land investors/owners** should:

- a. Ensure **transparency and accountability** in land management plans and ownership objectives and share these with communities.
- b. Ensure that landownership, land management and land use changes **consider the long-term consequences** to rural community sustainability and the just transition.
- c. Create opportunities to **include community voices** on decision-making boards or management committees and ensure adherence to good practice community engagement.