

Scotland's Rural College

Ecosystem markets and land use in England

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Large-scale land acquisition for carbon: **opportunities and risks**

Natural capital buyers and carbon markets are driving significant and rapid changes in the land use sector.

These trends create risks for markets, land managers and rural communities.

This briefing outlines these risks and proposes sixteen options for policy and practice, based on an evidence review and round-table with experts.

The challenge

Interest in carbon markets has increased rapidly in recent months, leading to new market opportunities and interest in acquiring land to invest in natural capital, typically through tree planting and restoration of degraded peatland habitats. However:

- The extent to which natural capital investment is driving transactions is unclear, with owners and purchasers potentially influenced by many factors.
- There is also uncertainty around how large-scale land acquisitions might interact with post-Brexit policies under development across the UK and the interests of rural communities.

In response to this, we conducted an evidence review and convened more than 60 experts from policy, investment, third sector, research, land management and rural communities to identify and critically assess options for policy and practice to pre-empt and address trade-offs and challenges.



Natural capital buyers and carbon markets are driving significant and rapid changes in the land use sector

- Agricultural land quality is no longer the key determinant of value of farmland, particularly for hill ground and less productive grassland and marginal arable ground. Instead, the natural capital and afforestation potential of land is increasingly important, due to timber prices, competitive forestry grants and carbon markets.
- Farm buyers are now frequently outbid for plantable hill ground by forestry investors, particularly in Scotland.
- Farmland values rose across the UK by 0.7% in 2020 and by 6.2% in 2021 (the strongest annual growth since the 2014 global food crisis), with Scotland experiencing the strongest growth in values (31.2%) in 2021. Poor livestock land in Scotland has increased in value by 60.8% in 2021 (thirty times higher in 2021 than a decade ago). This may have longer term implications for hill farming communities and the sheep farming industry.
- Non-farming buyers of farmland, including investors and amenity buyers, are increasingly important, purchasing >40% of farms in the UK over the last 5 years.
- Natural capital buyers are also increasingly important in the estates market. The overall amount invested in Scottish estates in 2020 (£112M) was the largest annual investment in estates in the last ten years and represented an increase of 55% on the ten-year average investment
- Since 2019/2020 demand for forestry and plantable land has increased substantially from institutional investors and financial institutions, with several new rural-investment funds entering the market, driven by increasing demand for environmental investments, and the strong long term returns from forestry (including inheritance tax exemptions) outperforming most other asset classes. At present however, returns from productive forestry are currently higher than incomes from carbon.
- Average sale prices for commercial forestry land exceeded valuations by around 50% in 2021, a year that saw the largest ever annual investment in commercial forestry land. Total investment in commercial forestry land in both 2020 and 2021 reached just over £200M, around double the levels seen in the preceding two years.
- Plantable land increased in value from an average of £6200 per gross hectare in 2020 to £8500 per/ha in 2021, with Scotland experiencing the sharpest rise in value of 54% on 2020 values for plantable land.
- Around a third of sales of farmland, estates, forestry and plantable land have been off market in the last year, representing a substantial increase over former years.

These trends create risks for markets, land managers and rural communities

While it is clear that natural capital markets and wider investor interest in carbon offsetting and green agendas are driving market interest and in particular land values for plantable land (and peatlands), there is currently limited evidence in relation to what the wider outcomes of this are for rural communities and economies and how this varies based on the resulting land use outcomes (e.g. estate or farm based rewilding versus investment oriented productive mixed forestry). Nevertheless, the project has identified a number of important risks that need to be managed:

- Without the development of new, high integrity ecosystem markets, opportunities for UK nature recovery may be missed. Although the UK is the third largest buyer of offsets in the world, the majority are bought from overseas projects, as there are insufficient woodland and peatland projects to meet growing demand from investors.
- However, without buyer checks, it is possible for highly polluting industries to reach net zero via offsetting rather than reducing their emissions at source, undermining the integrity of both markets and global political agreements. With insufficient measurement, reporting and verification, new carbon and ecosystem markets might fail to deliver promised GHG abatement, further undermining trust.
- Failure to effectively “blend” public and private funding via government-run agri-environment schemes and privately-run ecosystem markets could result in market failures creating a postcode lottery for access to private finance (which may only be available in locations and for services that are attractive to the market), and/or public funding paying for work that would otherwise have been delivered by markets.
- As land values increase, there are benefits for existing owners, but with increasing disparity between land values and farmland incomes, particularly for smaller scale farmers, this may exclude new entrants to farming, re-concentrate landownership (where tenancies are taken back in hand to achieve scale efficiencies) and limit access to land by rural communities (which may constrain economic development and housing).



Options for reducing risks and enhancing positive impacts of natural capital investment

Based on the evidence review and roundtable discussion, 16 options for policy and practice across the UK were identified across five themes.

1. Land market transparency, regulation and best practice in land acquisitions:
 - Build an evidence base on land market activity through regular independent market assessments (including off-market sales)
 - Develop guidance on rights and responsibilities for investors entering the UK land market
 - Consider formal approval processes for land acquisitions, including a public interest test for new land sales over a set threshold
2. Participatory and collaborative approaches to natural capital investment:
 - Provide guidance and training for land managers on community engagement, to improve decision outcomes for communities
 - Support alternative landownership models, including community ownership, and collective private ownership models and community-owner partnerships
 - Assess the potential for community natural capital funds, to ensure benefits from investment are shared fairly between public, private and community interests
3. Supporting access to land for nature-based land uses:
 - Facilitate joint venture mechanisms to increase access to land and natural capital funding including (i) contract farming; (ii) partnerships; (iii) share farming; (iv) tenancies; and (v) leasing arrangements
 - Address barriers to tenants engaging in ecosystem markets, including encouraging contracts that allow tenants to participate in natural capital schemes
 - Explore fiscal instruments that could facilitate diversification of landownership, including income tax relief for new entrants, changes in liabilities for non-domestic rates, inheritance tax and capital gains tax, and development of a Land Value Tax
4. Values-led, high-integrity ecosystem markets:
 - Expand and enhance high-integrity carbon and ecosystem markets through developing new accredited codes for different land uses and ecosystem services
 - Develop carbon buyer checks to ensure land is only used for carbon offsetting for residual emissions when a buyer has done everything feasible to reduce emissions at source
 - Develop a co-ordinated policy framework in each UK country on the design, governance and operation of ecosystem markets and their alignment with land-based support that ensures consistent UK-wide operation of ecosystem markets without distorting effects from different subsidy regimes in each

countryDevelop a UK advisory body to ensure oversight of carbon credit projects, make recommendations on additionality requirements and monitor and enforce compliance with rules and guidance

5. Rural land use frameworks, redistributing support and incentivising landowners:

- Further develop the potential for place-based, collaborative approaches to the application of natural capital markets in parallel with public support mechanisms, including through testing a data-driven, natural capital accounting approach
- Apply a redistributive approach to post-Brexit public payment mechanisms where feasible (direct and/or environmental payments), to facilitate wider distribution of benefits across the land management sector to address issues of landownership concentration and capitalisation of support payments on larger landholdings
- Develop knowledge exchange and training for land managers, in addition to increased advice and guidance, relating to engaging with natural capital markets and related environmental support schemes (and undertaking related assessments)

It is clear that interest in natural capital and ecosystem markets is driving rapid and significant change in the land use sector across the UK, but these changes are layered on top of (and often symptomatic of) long term and systemic issues in land markets (e.g. around concentration of landownership) and other market drivers (e.g. timber prices). The extent and speed of land use change envisioned by the Committee on Climate Change to meet net zero targets by 2050 is unprecedented. To achieve these changes is likely to require a combination of changes to public support mechanisms and privately financed payments for ecosystem services. The scaling of existing voluntary domestic carbon markets and development of new markets has increased the viability of large-scale land use transitions (e.g. rewilding and afforestation). However, income from natural capital is likely to be unevenly distributed across the land management sector and could reinforce existing structural inequalities relating to concentration of landownership and decision-making power, and related outcomes for communities. It is therefore important that effective and well-aligned market-based and public-support mechanisms are designed to tackle existing structural barriers, avoid policy conflicts and ensure land use transitions are viable across a wide range of land managers and holding types and sizes.



More information

To request a copy of the full report, please contact Professor Mark Reed: mark.reed@sruc.ac.uk. For other information or questions about this work, you may also contact Dr Rob McMorran: Rob.McMorran@sruc.ac.uk

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Conflicts of interest: Professor Reed is Research Lead for IUCN UK Peatland Programme and sits on the Executive Board for the Peatland Code, and is part of a team developing a UK Farm Soil Carbon Code and a Saltmarsh Code.

