

NATURAL CAPITAL MARKET FRAMEWORK CONSULTATION

COMMON WEAL RESPONSE

INTRODUCTION

Common Weal is deeply disturbed to learn that the Scottish Government is attempting to apply a privatised market framework to Scotland's "natural capital" which is defined as "our geology, soil, air, water, plants and animals". We have vigorously opposed such attempts in the past (such as the 2023 "PFI for Trees" scandal and the "Green Investment Portfolio" in 2020). We have also produced data showing not only that Scotland's level of private profit extraction is higher than almost all of our peer developed nations but also is already higher than many developing countries which have pursued or had thrust upon them similar market frameworks governing their own natural capital (see our 2024 policy paper "Profit Extraction"). The principles outlined in the proposed market framework betray the intention of the Government to make it even easier for private companies to extract profits from Scotland regardless of their impact on our communities and on the global environment. If the role of private finance in the natural environment is to be defined, we would encourage the Scottish Government to adopt the recommendations of Community Land Scotland's Natural Capital briefing which includes more proactive land reform, a refocussing of the Scottish National Investment Bank and a better appreciation of the risks to the public purse if policies that "de-risk" private investment are enacted.

For the record, we are also deeply concerned that the Scottish Government has stated an objection to the publication of responses to this consultation and we fear that this will result in the hiding from public view the responses to it received from individuals and private companies likely to profit from the framework. This is entirely unacceptable and we call on the government to publish without redaction all responses received.

RESPONSES TO QUESTIONS

1. How can the market framework best ensure the delivery of community benefits in natural capital markets?

Ultimately the need for community benefits will, under the framework proposed, be overridden by the “need and expectation of return on investments”. With the Scottish Government overtly championing Foreign Direct Investment as a means of funding many of these projects, this means that the returns will predominantly flow outwith Scotland. We believe that the market framework will ultimately be a negative force on communities in Scotland.

2. How can the market framework increase the number, diversity and scale of projects ready for investment?

Please add any response on increasing the number of projects

We acknowledge that the Scottish Government has limited powers of borrowing under the current devolution framework however we also acknowledge that the Scottish Government failed to argue (successfully or otherwise) for an extension of those powers beyond an inflation uprate in the recent Financial Framework review (see our 2023 policy paper “The Turkey That Voted For Christmas (Twice)”). We therefore consider the proposed natural capital market framework to be an admission of this failure by the Scottish Government and any judgement of the number of projects completed as a result of it should be measured not against a metric of how many could have happened without the market

framework but instead on how many could have been achieved had Scotland done more to secure the capacity for reasonable levels of direct public investment.

Please add any response on increasing the breadth of market actors

We do not believe that the breadth of market actors operating within a capital market framework is a measure of success in terms of protecting Scotland’s natural environment however we acknowledge that Scotland retains some of the most concentrated patterns of land ownership in the developed world and more people (rather than “actors”) being enabled to own and protect land in Scotland (either in the sense of individual ownership or in the sense of collective ownership of The Commons) would be a positive. The Market Framework does not encourage this however as it essentially judges access to capital as more important than diversity of ownership and thus will inevitably lead to oligopoly, cartel or outright monopoly ownership of land and nature in Scotland. This can already be seen in the rise of investment firms such as Gresham House which is now estimated to be the third largest landowner in Scotland – in part due to overt support from the Scottish Government.

Please add any response on increasing scale of projects

We’re concerned that the language of this question runs contrary to stated goals in land reform and the reduction of the concentration of ownership and power over Scottish land. Increasing the scale of individual projects implies an increasing

concentration of ownership of projects. Instead, the Scottish Government should focus on increasing the collective impact of projects (i.e. 100 community projects should be given at least as much support, if not more, than one hedge fund-owned “market framework” project that delivers a similar result).

3. How can the market framework help to increase investment in natural capital?

The current carbon credit market actively hinders the protection and restoration of Scotland’s natural landscape (as well as the climate as a whole) largely because the price of carbon credits are far too low. One of the most recent estimates for the “social cost of climate emissions” (Bilal & Känzig, May 2024) is over \$1,000 per tonne of carbon dioxide equivalent emitted. The current price of a UK carbon credit is approximately \$60 per tonne, meaning that a theoretical carbon credit purchased from “offsetting” via a Scottish natural capital market framework would leave “unfunded” around 94% of the actual damage caused by that pollution.

4. How should public investment work alongside and enable private investment?

As outlined in Q4, encouraging a system of offsetting current pollution via underpriced carbon credits will cause net harm to the environment rather than aid it. The Scottish Government should use regulation and legislation rather than market frameworks to avert further climate change. Pollution should be increasingly restricted and polluting activities banned, the Polluter Pays principle should be applied to fully fund the damage caused by current

pollution via taxation of carbon and other pollution externalities applied at or above the estimated full social cost rate, and the revenue from that taxation should be applied to publicly funded and owned repair and mitigation projects.

5. How can Scotland’s market framework further strengthen the governance of natural capital markets?

We do not believe that a market approach to averting further climate change will work, and we do not believe that a natural capital market will help Scotland meet climate commitments in any way that is beneficial to the people of Scotland who rely on that land. Strong governance of the environment will only come from strong government regulation and legislation, not by market frameworks.

6. How can the market framework best ensure natural capital projects deliver multiple benefits on the same area of land?

Many of the purported “benefits” listed in the consultation are fundamentally at odds with each other. The experience of Scottish grouse moors, for instance, says that increased return on investment can be realised by reducing overall biodiversity via the aggressive extirpation of non-grouse wildlife, and by underemploying and underpaying local employment compared to the prospect of alternative land uses (See Common Weal’s 2021 policy paper “Work The Land” for details).

We expect that a market framework-driven policy towards land will always place the maximisation of the return on investment

above all other “benefits” and thus will deliver benefits beyond that one if and only if delivering those benefits do not reduce the rate of return, or if not delivering those benefits would place the scheme at risk due to the community or political reaction against it.

7. Which Scottish policy dependencies should be reflected in the market framework?

Scotland’s climate obligations demand a better than Net Zero approach to emissions, a Polluter Pays approach to current, future and past pollution, a Circular Economy and an end to the degradation of Scotland’s natural landscape. These should be reflected in all areas of Scottish policy. Including a market framework if one is implemented – though for the reason given in our answer to Question 6, we are sceptical that a market framework can be designed that meets those requirements. Instead, we believe that such a framework would place a return on private investment as paramount above other criteria and even to the detriment of them.

8. How do existing codes and standards support what we’re trying to achieve in Scotland?

If existing codes and climate standards were sufficient to have realised Scotland’s climate obligations, then Scotland would have already met those obligations. The failure to do so suggests that such standards should be increased, but we remain opposed to a “market framework” approach to doing so and do not consider the maximisation of profit extraction from Scotland’s natural capital to be an achievement. See our answer to Question 4 for an alternative.

9. How else can Scotland’s Market Framework help to realise the opportunities of natural capital markets?

As outlined above, we believe that the demand for a return on investment will override all other “opportunities” in all cases unless the alternative of not overriding provides a higher rate of return. Given that higher rates of return can be realised by not paying for pollution (see the example of the underpricing of carbon credits), we do not believe that these “alternatives” will be sustainable and that the market will always seek to breach its climate obligations in the quest for higher profits from Scotland’s “natural capital”.

Response on behalf of Common Weal by

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