



SCOTTISH LAND COMMISSION
COIMISEAN FEARAINN NA H-ALBA

Natural Capital and Land

The emerging value associated with carbon and natural capital in Scotland's land is a key driver of change, raising new questions, presenting risks and opportunities. Understanding its implications for land ownership and use, and how the potential benefits can be harnessed in the public interest, is a pressing question.

As a new and rapidly developing area of market activity, there are significant uncertainties for all parties with an interest in land. At this early stage of development, understanding the key issues is critical to realising the Scottish Government's ambition to shape a high integrity market that both attracts investment and benefits communities in a just transition.

Here we set out some of the key issues the Scottish Land Commission identifies in relation to natural capital, land, and a just transition. While these markets need to be shaped for long term benefit, there are also immediate questions about impacts in the land market and decisions facing land owners, managers, communities, and investors.

What is natural capital?

Addressing climate change and biodiversity loss means significant changes to the way Scotland's land is used and managed, and potentially owned. [Scotland's Land Use Strategy](#) and [National Planning Framework](#) set out the direction of travel for land use change, and the [Scottish Land Rights and Responsibilities Statement](#) provides a framework for shaping this change in ways that are fair.

Natural capital is the renewable and non-renewable stocks of natural assets, including geology, soil, air, water, and plants and animals that combine to yield a flow of benefits to people. Adopting a natural capital approach enables us to understand the role of our natural environment, alongside its intrinsic value, as an asset that underpins and enhances our economy and society.

In the [National Strategy for Economic Transformation](#) the Scottish Government commits to establish a values-led, high-integrity market for responsible private investment in natural capital, one that will support a just transition.

Strategies to achieve net zero are increasingly shaping investment and business plans in the finance and corporate sectors. This, in turn, is rapidly growing the emerging natural capital markets where investment can be directed to support positive land use change. Natural capital markets are much wider than carbon, but the voluntary carbon markets are the most developed at this stage and are already influencing the land market.

Enhancing the stock of natural capital requires land as well as substantial financial investment. There have been several high profile land purchases which have focussed attention on the impacts of natural capital investment in the rural land market. But it is not all about new land acquisitions. The influence on land use choices, changing financial returns and values is also now a significant influence in decision-making within existing land ownerships.

Urban Scotland is relevant here too. The value of urban woodland, for example, is widely recognised not just on carbon and biodiversity grounds, but also for the health and wellbeing benefits it brings to communities. There are lessons to be shared across both rural and urban Scotland in understanding how investment in natural capital can deliver wider socio-economic benefits.

Scotland is not alone in considering these issues. There is an international focus on natural capital investment and land rights and the implications for communities in the context of economic, social, and cultural human rights which provides opportunities for learning and collaboration.

Over the following pages we explore six issues that open a range of opportunities and risks.

Key issues

1. Ownership of carbon

The ownership of carbon – or more accurately, the ownership of rights to exploit the ability of land to sequester carbon – poses some questions, particularly for land under agricultural and crofting tenure, but also more widely.

There is no explicit legal framework for the ownership of carbon or rights to carbon. Practically, control over land brings control over the ability to pursue activities to sequester carbon. Confidence in securing verified carbon units is underpinned by the ability to implement and guarantee the relevant management measures on land over the required time. However, carbon rights could be framed differently in future legislation.

Where there are leases or other forms of tenure rights in place, the balance of rights and responsibilities between landlords, tenants, and third parties needs to be determined. In practice, despite uncertainties, the pressure to deal with live situations means that landlords and tenants will need to co-operate. The Tenant Farming Commissioner has published [interim guidance on the agricultural holdings context](#), which, while directed at that sector, articulates principles of collaboration that could apply to other forms of tenure or contractual relationships.

2. Planning and engagement in land use change

There is unease expressed by some about the pace and scale of land use change. Public support and engagement in the nature of change, choices, and benefits it offers is key to achieving a just transition.

Risks

It is important that decisions are not made on the basis of carbon alone but seek to deliver multiple benefits for carbon, nature, communities, and economies. While these objectives can and should be mutually achievable there is a risk they are seen to be in competition.

There is a risk that in the rush for carbon, action is taken unilaterally, missing the landscape scale opportunities and ultimately delivering less. On the ground, mutually beneficial opportunities may be missed, local business and communities could feel excluded, and that change is being done to them, rather than with them, missing opportunities to reverse rural depopulation and reinvigorate rural economies.

Opportunities

There is a significant opportunity to deliver win-win investment through early engagement, planning and collaboration. Expectations for community engagement in decisions about land are already set out in [Scottish Government guidance](#) and the [Scottish Land Commission's Protocol](#). Any plans for significant land use change, whether in existing land holdings or newly acquired holdings, should begin with genuine community engagement, through which opportunities for mutual benefit can be identified.

The Scottish Land Commission's [advice on Regional Land Use Partnerships](#) identified the important role these partnerships could play in facilitating accountable land use planning, decision-making and delivery, including bringing together multiple sources of finance. The pilots currently underway offer the opportunity to learn in real time.

3. The land market

We are already seeing the influence of the ability to secure and trade verified units of carbon in the rural land market. The Scottish Land Commission is conducting market analysis to better understand the scale and nature of this influence in the market. However, commentary from land agents suggests there is already a significant increase in demand and land value associated with natural capital.

Risks

High land values risk acting against the Scottish Government's ambition to diversify the pattern of land ownership. Rising land values and potential new revenue flows could encourage some existing landowners to hold on to land. Equally it could encourage others to sell. However, high demand, a low supply and high land values are likely to make it more difficult for communities and individuals to acquire land in the market. Given Scotland's starting point of a highly concentrated pattern of land ownership and a relatively unregulated land market, there is a significant risk that emerging natural capital value will further concentrate ownership and benefits arising from land.

There is also a risk that direct ownership of land is seen as a default option for corporate organisations seeking to offset remaining carbon emissions if it is seen as cheaper and easier than more collaborative options that would deliver greater benefit.

In the long term, sequestration activity locks in land use in perpetuity, potentially limiting or excluding co-uses. Although this is a necessary part of the sequestration process, the reality of poorly designed or managed schemes – particularly if combined with mass forward selling of credits – could lead to significant fluctuations and variations in land value, the effects of which are not yet widely considered or understood.

Opportunities

If planned deliberately, there are opportunities to harness natural capital investment in ways that can support and enable more diverse land ownership, including through community acquisitions, shared and cooperative ownership models, and the role of public land owners in the market.

Better understanding buyer motivations and ambitions, questioning whether unilateral land ownership is necessary, combined with support for diverse ownership and governance models, could open up a range of opportunities for individuals, communities, and local businesses to develop more innovative models.

4. Sharing the benefits

Scotland has experience of previous natural resource booms, most recently renewable energy and oil and gas. The lessons on how the financial flows and benefits from these have been shared, managed, and invested may be instructive in helping guide an effective approach to natural capital.

There is a balance to strike between private, public, and community benefit and between local, regional, and national interests. It should be recognised, particularly at this early stage of market development, that there is no 'one size fits all' model and that the values and financial flows involved remain uncertain. However, the commitment by Scottish Government to ensure that local communities are empowered and benefit from investment in natural capital is an important one.

Risks

In the short term there are risks for individual land managers, farmers and crofters in making decisions about selling rights to carbon at a time when values are uncertain and their need to retain carbon units within their own business remain unclear.

Longer term there is a risk that the financial benefits of Scotland's natural capital could be narrowly distributed and extracted from local economies, or exported outwith Scotland, rather than be reinvested.

Opportunities

At a national level, a wealth fund approach offers potential to harness long term value and reinvestment, learning from international experience of sovereign wealth fund models. At a regional scale, community wealth building approaches that root control and benefit from natural capital in local economies are important.

For communities, there are a number of ways in which investment in carbon and natural capital could deliver benefits. This could be direct financial benefit, particularly where the investment anticipates a future financial return based on increased carbon values, but could also include benefits such as infrastructure, community facilities and amenities, jobs and local business opportunities. The Scottish Land Commission is working with emerging examples to advise on viable approaches to securing community benefit.



5. Sharing investment

Significant investment is required to deliver the Scottish Government's planned land use change. The Green Finance Institute estimates an investment gap for nature restoration in Scotland of around £20bn over the next decade. Much of this will be sourced from private finance alongside significant public investment. Setting clear, shared, and well understood parameters for responsible finance is key to shaping investment in the public interest.

Risks

There is a risk that the scale of investment required favours only large-scale financial institutions with associated risks of acting in ways that disempower local communities or failing to reinvest financial benefit locally and support community wealth building.

Opportunities

There is an opportunity to shape markets and ownership structures in ways that enable participation of small-scale investors as well as larger institutions.

Investment in delivering enhanced natural capital or carbon management does not require direct land ownership. Given the constrained nature of the land market, and the opportunity to deliver more social impact, there is value in developing approaches that work with and through communities and other land managers. Such collaborative approaches offer benefits for corporate partners seeking to secure specific outcomes and open scope for joint ownership and governance models that share responsibilities and benefits more widely.

Opportunities could also be realised for small, individual, and community investors if a supportive framework is developed, reducing reliance on a small number of large investors and sharing the risks and benefits

more widely. Investors could work together through mechanisms such as cooperatives, seen in other sectors, which would also develop more diverse and democratic governance models in land.

6. Shaping the land and natural capital markets

There is a window of opportunity to shape emerging natural capital markets in the public interest, to deliver the high integrity, values-led approach the Scottish Government seeks. To do this, the framework for these markets must be deliberately designed to attract responsible investment and ensure the long term benefits are fairly shared. This is likely to require action to set the framework in both natural capital markets and the land market, using a mix of incentives, policy, and regulation.

As it stands, the current natural capital carbon market relies on a voluntary approach to certification as well as participation and it is unlikely this voluntary approach will meet the longer-term needs and ambitions of this developing sector.

Scotland's land market is also lightly regulated with very few constraints on land acquisition which perpetuates the existing pattern of concentrated ownership. The Scottish Land Commission's [proposals for a public interest test](#) on significant land acquisitions and a statutory review mechanism address some of the underlying risks. Developing the legal and policy framework more fully is likely to require consideration of a joined-up approach to tax and fiscal support, the role of public land ownership, as well as public interest safeguards at the point of land transactions. In addition, proactive ways to harness new finance in supporting community ownership and new governance models will be needed to make the most of the opportunity.

What are we doing?

The Scottish Land Commission is undertaking work to inform our advice on shaping the market in the long term as well as shorter term options:

- a) **Research and evidence:** Publish a report on the implications of natural capital in the rural land market. This study is reviewing the number, type and value of transactions, including where possible private sales, and engaging land agents in understanding the motivations and trends shaping the current land market.
- b) **Shaping responsible practice:** Provide guidance to support the practical development of the Scottish Government's ambition for high integrity, values-led markets including a Land Rights and Responsibilities Protocol on responsible practice for natural capital investment and ownership.
- c) **Advising on options for community benefit:** Review lessons from previous experience and work with early adopters to advise on options for securing community benefit from the emerging carbon and natural capital value.

We will also stimulate thinking, challenge, and discussion on key issues to be considered in harnessing natural capital value well through a series of Land Lines discussion papers and events.



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COIMISEAN FEARAINN NA H-ALBA

Contact us

@ info@landcommission.gov.scot

☎ 01463 423 300

🌐 www.landcommission.gov.scot

Find us on:

