

## Submission to the Advisory Group on Economic Recovery

### Scotland's Natural Economy & its Role in the Recovery & Renewal Strategy

#### Recommendations

1. The Chief Economist should undertake a regular analysis of the performance of the natural economy and its target potential compared to benchmark economies, alongside further development of the natural capital assessment.
2. A Joint Ministerial Group on the Natural Economy should be formed to oversee the strategic collaboration of all arms of government involved in its stewardship and growth.
3. A Commission on the Natural Economy should be created, reporting to the Joint Ministerial Group within an initial period of around 3 months.
4. A short SFC-led review of the Further and Higher Education sectors together with the scientific research institutes should be undertaken to ensure a new collegiate approach to support the broader natural economy in the form of education and training, research and innovation and consultancy, and business advice; reporting within three months.
5. The crisis provides even greater impetus to develop robust policy frameworks that drive Scotland to enhance its natural capital, yet offer opportunities for entrepreneurs to drive a sustainable natural economy – particularly through innovation and the development of new products, services and markets.

#### Overview

This note sets out our recommendation that the long-term, sustainable performance of Scotland's natural economy is integral to the country's recovery and renewal strategy, as well as a key pillar of policy evolution and action for the long-term. We argue that natural economy thinking underpins our future resilience to external shocks, but also generates opportunities for economic recovery and sustainable growth.

Scotland is different from the rest of the UK, both in terms of the wide range of natural assets it has to draw upon and in terms of the challenges - and opportunities - it faces in doing so. Green infrastructure is a vital component of the natural economy of Scotland: it provides the rural-urban networks required for food, fibre and energy production; it underpins the management of carbon, water and biodiversity; and it provides the focus for recreation and tourism activities.

Managing Scotland's natural economy well, together with increasing circularity and reducing waste, should be at the heart of economic recovery. This will require further public and private investments in low carbon and climate-resilient infrastructure to:

- Guarantee better nurturing and management of our natural resources;
- Facilitate greater woodland creation, peatland restoration and the provision of green spaces;
- Help develop new products and markets from our natural resources;

- Improve the resilience and sustainability of our natural economy;
- Ensure that our natural economy continues to contribute to economic recovery and growth;

### **Defining and measuring the natural economy**

In its initial experimental assessment (March 2019) of Scotland's Natural Balance Sheet, the Scottish Government's chief economist noted:

*“Nature provides the basic goods and services that make human life possible: the food we eat, the water we drink and the plant materials we use for fuel, building materials and medicine. The natural world also provides less visible services such as climate regulation, the natural flood defences provided by forests, removal of air pollutants by vegetation, and the pollination of crops by insects. Then there is the inspiration we take from wildlife and the natural environment.”*

We recommend that the Scottish Government Chief Economist is tasked with advancing on the excellent initial experimental natural accounts as a measure of the initial balance sheet. We also recommend that this is extended to include a broader definition of the natural economy and its existing assets, together with an assessment of what ongoing work and investment is required to maintain and enhance it.

Accordingly, while the initial focus of analysis was dedicated to a number of natural resource sectors, this definition should be widened for more inclusion of sectors benefitting from sustainable management of nature and its resources, as well as the social and physical infrastructure required to sustain such an economy. The general principle of a natural economy should be to capture and recognise the flow of economic and non-economic returns from our natural capital for ensuring inclusive and equitable wellbeing.

This will, however, require a better understanding of the fundamental links between different sectors, the natural economy and economic growth across Scotland. Such an understanding is essential if we are to identify not only risks and appropriate mitigation actions, but also opportunities for substitution of imports and thereby opportunities for business development within Scotland. Doing both will be essential to improve the economic resilience of the whole economy.

The industries underpinned by Scotland's natural capital will therefore have an essential role to play in supporting economic recovery. For example:

- Renewable Energy – on both sea and land – which currently provides around 90% of Scotland's energy needs<sup>i</sup>.
- Oil and Gas – worth over £16 billion<sup>ii</sup> – utilises natural assets primarily associated with Scotland's marine areas, including growing decommissioning activity and expertise.
- Food and Drink Manufacturing – worth £14 billion<sup>iii</sup> – utilises clean water and local barley to underpin the international brand of Scotch Whisky and growing Gin reputation;
- Tourism – worth £10.5 billion<sup>iv</sup> to the Scottish economy – utilises our internationally renowned landscapes, biodiversity and natural heritage;

- Agriculture - worth nearly £4 billion<sup>v</sup> - provides safe, nutritious food for the Scottish population and uses its resources to generate income from national and international markets;
- Forestry – worth £1 billion<sup>vi</sup> – which provides sustainable construction material and is a vital component of carbon sequestration in the fight against global warming;
- Fisheries – worth nearly £300 million<sup>vii</sup> – where our aquaculture sector has an international reputation for producing much sought-after salmon and shellfish from cold, clean Atlantic waters;

However, while these sectors are vital to the Scottish economy, and are underpinned by the natural economy, there is still much that can – and needs to be – done to improve their resilience and sustainability. This can partly be achieved by better nurturing and management of our natural resources, but to achieve this fully will also require the investment in new technologies that can help develop new products and markets from those resources.

Moreover, a regular assessment of the performance of the natural economy, through a wider set of performance indicators, should be produced along with an assessment of its potential contribution to underpin other sectors, based on analysis of the potential of its assets and also benchmarks from high performing comparator countries and regions, including Netherlands, New Zealand, Denmark and others.

### **Key considerations and policy intent**

It is very important that the economy and society that emerges from the crisis is built on strong and sustainable foundations. Brexit, alongside the climate emergency and biodiversity crisis, had already brought increased policy and business focus on the challenges and opportunities of changing the way we use, value and support our natural economy. The COVID crisis may indeed act as a catalyst to bring forward actions to improve how we exploit and nurture our natural resources.

It is, therefore, vital that private and policy actions embedded in our long-term recovery strategy remains focused on the underlying health of this natural ‘balance sheet’, as well as the annual flow of economic gains derived from it. Inter-generational considerations should be given to the creation/evolution of institutions, governance and engagement mechanisms that allow ambitious, ground-breaking policy to be implemented with purpose. This strategy should seek to achieve cross-partisan support for its core foundation.

Our initial assessment suggests that Scotland’s natural economy represents an area of significant ‘comparative advantage’ for the country. At the same time, however, we believe that lessons can be learned from around the world and that the latest thinking and research can inform a strategy to ensure it makes a significant and enhanced contribution to the emerging economy and model.

We need a coherent strategic approach to long term policy creation and implementation to ensure that a strategy for the performance, health and sustainability of the natural economy is created. It will involve the collaboration of existing institutions and policy, alongside their possible restructuring and the potential creation of new entities.

As with all new strategies, it will also involve the bearing of risk on policy innovation. We must also be prepared to invest in the initial phases in order to secure the future position. To ensure that the focus on our natural capital/economy commands broad support, it will undoubtedly require collective actions to embed the natural economy within our psyche and will therefore need a pioneering approach to the engagement across public, private and third sector organisations engaged in this sector.

### **Initial draft recommendations**

- A Joint Ministerial Group on the Natural Economy should be formed to oversee the strategic collaboration of all the arms of government involved in its stewardship and growth. Natural capital maintenance and enhance should become a principal outcome within the Scottish Government's National Performance Framework.
- A Commission on the Natural Economy should be created to draw together leaders across a range of key components of the natural economy, including public, private and third sector interests. It should meet for a compressed period to set priority targets and actions for the Scottish Government to lead, along with recommendations for the optimal ongoing governance model to ensure the ongoing engagement of all relevant parties in the creation and implementation of the strategy as it develops. This should seek to report within three months.
- A short SFC-led review of the further and higher education sectors should be undertaken, and the scientific research institutes should work with SFC and the Scottish Government to deliver a programme of collaboration and reform. The objective is ensuring that a cost effective and ambitious support for the natural economy is provided in the form of education and training; research and innovation and consultancy and business advice. The very best of Scotland's institutions should work collegiately and consider relevant structural reforms to ensure that this broad sector is supported by a world class education, research and commercial framework. This process should reach initial conclusions within three months with a view to early implementation of its recommendations.
- There is already significant policy traction with regard to future agricultural support and climate change. This momentum cannot be lost due to the COVID crisis and the inertia that lockdown has resulted in. Whilst food security issues undoubtedly have been brought into focus during the crisis, it is acknowledged that the model we have been using to support farming, forestry and fisheries has not had natural capital at its core. The crisis provides even greater impetus to develop robust policy frameworks that drive Scotland to enhance its natural capital, yet offer opportunity for entrepreneurs to drive a sustainable natural economy – particularly through innovation and the development of new products, services and markets.

SRUC is a widely respected further and higher education institute dedicated to producing specialist research, delivering high quality education, and providing comprehensive consultancy services in the rural sector within Scotland, the UK and beyond. It has the highest intensity of business engagement with SMEs of any College or University in the UK..Through our national and international understanding of the natural economy, we can support the development of more robust assessment frameworks, monitoring and evaluation. We can also

help engender change in land managers through the identification and development of innovative solutions and the work of our advisory, consulting and education services.

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<sup>i</sup> <https://www.gov.scot/binaries/content/documents/govscot/publications/statistics/2018/10/quarterly-energy-statistics-bulletins/documents/energy-statistics-summary-march-2020/energy-statistics-summary-march-2020/govscot%3Adocument/Scotland%2BEnergy%2BStats%2BQ4%2B2019.pdf>

<sup>ii</sup> <https://www.gov.scot/binaries/content/documents/govscot/publications/minutes/2019/10/just-transition-commission-meeting-papers-september-2019/documents/paper-4-1-oil-and-gas/paper-4-1-oil-and-gas/govscot%3Adocument/Paper%2B4.1%2B-%2BOil%2Band%2Bgas.pdf>

<sup>iii</sup> <https://www.gov.scot/policies/food-and-drink/>

<sup>iv</sup> <https://www.scottish-enterprise.com/learning-zone/research-and-publications/components-folder/research-and-publications-listings/scotlands-tourism-facts>

<sup>v</sup> <https://www.gov.scot/publications/agriculture-facts-figures-2019/pages/1/>

<sup>vi</sup> <https://forestry.gov.scot/images/corporate/pdf/economic-contribution-forestry-2015.pdf>

<sup>vii</sup> <https://www.gov.scot/publications/scotlands-marine-economic-statistics/pages/32/>