

Discussion Paper - Natural Capital

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Overview

Traditionally, we used to think that land was only valuable if we could extract market based commodities from it, for example growing crops/timber or rearing cattle. We now understand that our land is so much more valuable than this. It stores and regulates water, locks away carbon, provides recreation and tourism opportunity, cycles nutrients and even provides a sense of identity that is synonymous with Scottish products around the world.

Natural capital thinking allows us to think about the total value of our land and not just the basic traditional economic value. Natural capital can be defined as the stocks of natural assets which include geology, soil, air, water and all living things. It is from this Natural Capital that humans derive a wide range of services, often called ecosystem services, which make human life possible. Businesses depend on natural capital directly and indirectly – it directly accounted for 4.7% of Scottish GDP and 66,000 jobs in 2011. It is also vital to the £5bn that tourism contributed to Scottish GDP in 2013 – with over 200,000 people being employed in tourism-related industries.

This workshop will focus on securing the long term economic growth of Scotland's rural economy through the adoption of natural capital approaches. It will consider how using a natural capital lens can open up new markets for rural businesses to provide environmental services for the benefit of society, and what enabling mechanisms should be put in place to maximise uptake.

Background

Natural capital is another term for the stock of renewable and non-renewable resources (e.g. plants, animals, air, water, soils, minerals) that combine to yield a flow of benefits to people. The benefits provided by natural capital include clean air, food, water, energy, shelter, medicine, and the raw materials we use in the creation of products. It also provides less obvious benefits such as flood defence, climate regulation, pollination and recreation. Natural capital is one of several other commonly recognized forms of capital. Others include financial, manufactured, social and relationship, human, and intellectual capital. Natural capital supports all of the other capitals by providing essential resources, that support a healthy planet and underpins thriving societies and prosperous economies.

The costs and benefits to Scotland's economy arising from its natural capital is enormous and far reaching. For example it is calculated that invasive non-native species, through impacts such as damage to forestry, crops and infrastructure, cost as much as £200 million per year to the Scottish economy, and insect pollination is worth at least £43 million a year to Scotland's agricultural output. Research by academics has estimated that overall the benefits from nature which can be valued are worth £21.5 – £23 billion per year to Scotland's economy.

From tourism to the whisky industry, across all sectors of the economy and society, Scotland relies on its natural capital. Protecting and enhancing our stocks of natural capital is increasingly being recognised as an issue that requires attention from all sectors of society.

The Scottish Government has officially recognised natural capital as being a key indicator of economic performance going forward, and has enshrined its commitments to valuing it in its National Performance Framework, the 2017-2018 Programme for Government, and in Scotland's Economic Strategy.

In a recent major speech to 400 international ministers, financiers and businesspeople at the 2017

World Forum on Natural Capital in Edinburgh, the First Minister stated that:

“The Scottish government sees the concept of natural capital as an important tool for making better decisions as we look towards that better world... We're taking other very significant measures to enhance our natural capital... These investments might not be obvious priorities at a time when public finances are tight. But when we consider the contribution they make to Scotland's natural capital, their value becomes much clearer.”

Possible Discussion Questions

- Does the term and concept help your understanding of natural capital and how it relates to business?
- How can we articulate and communicate better the concept and importance of natural capital to help in local economic development
- What are the main barriers inhibiting businesses from making stronger use of Scotland's natural capital to grow business?
- What practical support might help your business to overcome those barriers?
- Certain sectors benefit significantly from Scotland's natural capital - for example food and tourism. How can we use our natural capital as a unique selling point which can benefit these sectors?
- The recent OCED Rural Development Conference in Edinburgh noted that “Building a resilient rural economy requires sustainable management of natural resources and the preservation of public goods, such as biodiversity and landscape.” What opportunities do you see for marrying growth in the rural economy and natural capital or the environment?
- What opportunity might be provided by advances in technology in taking those opportunities?
- The natural capital protocol provides a valuable toolkit for helping business make decisions which balance natural and physical capital use and also to see where opportunities lie. What has your business's experience been of accounting explicitly for the effect of the environment in business decision-making? What opportunities did that present? What lessons did you learn from the approach your business took and how has this shaped your future business model?
- What opportunities are there for innovating finance to help investment in natural capital grow the rural economy? What are the barriers?
- Many international businesses are using natural capital accounts to show the impact of their products or processes on the environment. This is being used to strengthen their brand – are there opportunities for businesses in Scotland to use natural capital in a similar way?