

NATIONAL ECONOMIC FORUM – TWENTIETH MEETING: 16 MAY 2018

DISCUSSION REPORT : NATURAL CAPITAL

Host: Ms Cunningham, Cabinet Secretary for Environment, Climate Change and Land Reform

Facilitator: Gary Gillespie, Chief Economist, Scottish Government

Panellists: Mary Christie (Scottish Natural Heritage), Jonathan Hughes (Scottish Wildlife Trust), Douglas Mundie (Saltire Business Solutions Ltd), Jo O'Hara (Forestry Commission), Andrew Wells (Crown Estate)

Summary

The discussion began by framing what was meant by the term natural capital and in particular what it meant to each of the panellists. Comments focused on: the leading position Scotland has taken and the challenges this poses, the need to involve a greater number of actors particularly in business and the value of a community and natural assets approach to sustainable economic growth. The discussion built on references made in the opening remarks by the Cabinet Secretary about the high importance of incorporating this way of thinking into all conversations about economic growth and its particular relevance to rural economies.

Introduction and Background

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.

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.

Themes discussed

1. Farming and agriculture

The principles of natural capital are well established in the agricultural sector though traditionally this term has not been used. Many farmers are already involved in the monetary value of the resources they manage, for example through carbon trading schemes. However it was noted that there are some limitations to current systems, eg. those that do not take account of permanent grass land – where farmers can build the carbon content of soil. There was discussion around how government could help monetise the efforts of farmers in keeping and maintain public goods for the benefit of ecosystem services. The Scottish Wildlife Trust policy on Land Stewardship was referenced here.

It was noted that producing commodities but not at the expense of natural capital makes business sense for farms by avoiding negative externalities in terms of costs but also long term environmental impacts. There would be benefit in raising awareness of the taking a natural capital approach within the farming industry, particularly around understanding the complex environmental interactions with farming and agriculture.

It was also recognised that there is an opportunity gain support for taking a natural capital approach and that there is a need to work together for standardisation, verification and assessment for this. There was a recognition that some financial support would be required for this and support from relevant organisations. Also a recognition that greater work is needed to ensure training within the industry is aligned to sustainable farming systems approaches.

2. Well-being and urban green spaces

Comments were made about the value of natural capital on individuals wellbeing alongside call to consider the social value and not just monetary of natural capital. This could be particularly beneficial in deprived areas and there was a desire to see more investment and development of this.

When considering the use of community assets as highlighted in case studies by Scottish Canals in an earlier presentation it was recognised that the benefits of natural capital were particularly powerful in urban areas as part of regeneration projects which could be transferred to the communities who benefit from them.

Forestry was used as a further example of community asset approaches where direct community management led to the delivery of benefits. The role of the Forestry Commission in these cases was emphasised as being able to provide professional forestry advice, funding and encouragement for communities to take ownership and experiment with their own management of these green spaces.

3. Investing in Green Space and encouraging SME's

The benefits to small and medium size business in investing in green space is evident, often resulting in higher profit margins and in keeping with core values of these enterprises. However it was acknowledged that in these SME's the challenge is often one of capacity. Advice on meeting this challenge focused on using effective case studies to share best practice and demonstrate opportunities of relevance to businesses. The Institute of Directors has just begun thinking on this and are looking to engage with young entrepreneurs who are enthusiastic about exploring these ideas particularly with the help of new technologies.

Closing Comments

It was widely accepted that there is a need to consider this engagement as the first of a series of conversations focused Natural capital. Future sessions on this at the National Economic Forum would be desirable and would reflect the importance of Natural Capital in informing a variety of economic strategies. Natural Capital is a new way of thinking which presents challenges but also opportunities for innovation with nature at the heart of decision making.

**Scottish Government
May 2018**