

CAAV BRIEFING NOTE 22nd September 2014

PAYMENT FOR ECOSYSTEM SERVICES

The question of how to value and pay for non-market goods and services is one which has taxed economists and policy makers for many years. 'Non-market goods and services' include such things as healthy soil, clean air and pure water, but might also include genetic diversity, a healthy population of pollinators, flood risk mitigation and carbon sequestration. Many of these so-called 'ecosystem services' are routinely delivered by farmers and land managers more or less as a by-product of their core activities, but policy makers have been considering ways in which value can be attached to them so that incentives can be offered to encourage the development of or improve the contribution made by these ecosystem services to society. This is related to current efforts that highlight the value of the natural environment, such as the [UK National Ecosystem Assessment](#).

Because markets have not valued them, these services have until now, largely been delivered by regulations, e.g. Nitrate Vulnerable Zones; supported by payments, e.g. Entry Level and Higher Level Stewardship Schemes; or reinforced by cross compliance.

Two sorts of value may be identifiable:

1. "Policy Value" – Much work is being done to apply the notion of "Natural Capital" so that decisions can take account of environmental issues and weight different outcomes. Practising valuers might regard this approach as theoretical, imprecise and unbankable.
2. A Market Value – Attempts are being made to establish an arms' length price for some non-market environmental goods through Biodiversity Offsetting and Payments for Ecosystem Services (PES) schemes.

Payment for Ecosystem Services

PES schemes are voluntary arrangements where one party pays another party to do something which has environmental benefits. If the parties can agree terms to their mutual benefit, then a price can be created which will, in turn, lead to the development of a market in such goods and services. DEFRA produced [an introduction to payment for ecosystem services](#) guide in 2010, which gives useful background information.

A PES scheme can be broadly defined as one which:

- Is voluntary

- Where a well-defined ecosystem service is 'bought' by at least one purchaser (e.g. a water company or Government department) from at least one provider (i.e. farmer or land manager)
- If and only if the provider can deliver the benefit.

PES schemes are usually seeking to provide a benefit which is over and above that which would otherwise be expected if the scheme did not run – this is referred to as “additionality”.

PES schemes are well established in some other countries, including in the United States and Australia, where landowners can bid to provide the services sought. In the UK there is limited experience to date of such a market approach, but some current examples of PES schemes include:

- [Upstream thinking](#) – run by South West Water and the Westcountry Rivers Trust, this scheme offers advice and funding to farmers for action which reduces run-off into watercourses. 50% grants were offered for such works as fencing watercourses to keep livestock out or roofing cattle yards to reduce dirty water run-off.
- [The Tortworth Brook project](#) – run by Bristol Avon Rivers Trust and Wessex Water, this scheme aims to reduce the costs of removing phosphates from treated sewage effluent by creating new wetlands on third party land.
- Environmental Stewardship – ES has many of the attributes of a PES scheme, although it was not specifically designed as one. In 2012 Natural England published a research paper - [Ecosystem services from Environmental Stewardship that benefit agricultural production](#) - which identified the ecosystem services that can be 'bought' through ELS and HLS schemes.

Many practical questions are raised by the prospect of PES schemes, which will involve long term deals on land management of perhaps 25 to 50 years, or even longer.

- How could they be done in law? The Law Commission has made recommendations on the creation of Conservation Covenants, which would be one tool to assist in delivery of such schemes. The Government has yet to legislate for them. (See <http://lawcommission.justice.gov.uk/areas/conservation-covenants.htm>)
- How could the services to be provided by landowner/farmer be defined and monitored? What sanctions could be applied for failure to deliver, especially decades on from the start date?
- Some schemes are likely to change the character of the land. How would the implications of this be assessed? What would be the consequences for farming practice and wider issues, such as eligibility for inheritance tax relief on agricultural property?
- How would the price (not “compensation”), be judged? What mechanisms would be needed to allow for future variation of the price or the method of assessing it?

Biodiversity Offsetting

Biodiversity Offsetting requires developers to compensate for the damage caused to the environment by a development, by creating or enhancing habitat elsewhere. In 2013 the Government consulted on a Green Paper which set out the options for introducing a system of Biodiversity Offsetting into the planning system for England, using evidence from the 12 pilot schemes which have been in operation since April 2012.

Compensatory habitat schemes are already required under EU law for certain large scale projects, such as port developments like that at Immingham, where 66ha of farmland was acquired to create new inter-tidal habitat to compensate for 22ha lost to the port expansion.

Key questions on a biodiversity offsetting approach include:

- Where will the land be found to deliver such schemes? It is unlikely that it can always be geographically close to the development.
- How long term will an agreement have to be? Some have suggested agreements in perpetuity.
- Will landowners be prepared to deal?
- At what price is that market deal struck to give reward to the landowner – not compensation – yet which still allows the development to go ahead financially?

The 2014 CAAV Scholarship has been awarded to Charlie Russ of the Hants, Wilts and Dorset Association, who will be investigating the opportunities presented by PES for agricultural valuers and their clients. His paper will be delivered to the 2015 CAAV Annual Conference in Windermere in June 2015.

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