

# CAAV

Professionals in the Countryside



## **Paying for Ecosystem Services: Exmoor Mires**

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# **Beyond Agri-Environment Schemes: A Price Between Private Parties**

# Changing Visions?

- Environmental goals have been
  - Delivered by regulations:
    - NVZs, SSAFO, hedgerow law
  - Supported by payments
    - ESAs, CSS, ELS, HLS, Management Agreements
    - Compensatory payments with a margin
  - Reinforced by cross compliance
- Because markets have not valued them
- Could they?
- CAAV 2011 Scholarship paper on water
- Offsetting for planning under NEWP

# Some Clues to PES

- A voluntary transaction in which
- A well-defined environmental service (or a use to secure that service)
- Is purchased by at least one buyer
- From at least one seller
- If the seller then ensures the continued supply of that service or use

# Payment for Ecosystems

- Where one party pays another party to do something which has environmental benefits
- No compulsion
  - No reason to be linked to an official scheme
- A price agreed between them
- Mutual benefit
- Create prices and perhaps in time a market

# However ...

- Much policy and academic discussion
- But few examples
- Little practice
- Yet coming onto the horizon
- Potential source of income and value
- If there is value to be unlocked
- But not for things that do not unlock value
- CAAV 2011/12 Scholarship on PES transactions

# Why Buy These?

- Supply: Landowners could supply services
  - At a price, on terms
- Demand: Why should someone buy them?
  - To meet regulatory need
  - To save money
  - To build reputation
  - To deliver a role (as for a charity)
  - Corporate social responsibility
  - Can only a large buyer deliver that demand?

# A Case Study

- New York's tap water is unfiltered
  - Good reputation and saves cost
- Comes from Catskills and Delaware catchment
  - But quality was being threatened by farming uses
- Could build and run new plant
- Chose to buy changes in farming practice
- Saved \$8-10bn in cost, for \$1.5bn on scheme
- A deal
- Other examples: Evian, Australia, etc



# Exmoor Mires?

- South West Water may offer deal to Exmoor farmers/owners
- To manage more stable flows of water
  - Saving pumping and flooding costs
  - Less risk of low water in the Exe
- To manage the land to reduce run-off of soil, peat
  - Saving costs of cleaning water

# Meaning?

- Long term deals on land management
  - 25 years, 50 years or longer
  - How done in law?
- Could change character of land – irreversible?
- Different effects for different people
- Define services provided by landowner/farmer
- Consequences? Farming practice? IHT? Etc?
- At a price, not compensation
- How is that price to be judged?
- Mechanisms for future variation?

# Some “Buts”

- Will those savings really exist?
- If so, where could savings also go?
  - Return to SWW shareholders
  - OFWAT will want some saving for consumers
- Interaction with existing schemes
  - SSSI Management Agreements
    - Not all are for wet land
  - HLS – relatively short term 10 year agreement
    - Now to be replaced by 5 year NELMS

# Other Practicalities?

- How big is the change?
  - Does this become the dominant use?
  - Other businesses affected
- Will “services” be provided or just a change?
  - If this is to be a business for tax
- Landlord/tenant
- Commoners?
- Other interests in the land?
  - Sporting interests, minerals?

# Other Issues?

- Carbon? – retaining and re-growing peat
  - Much value? One off or recurrent payment?
  - Who would buy? Any value at this scale?
  - Corporate Social Responsibility?
- Bio-diversity
  - Value cannot be unlocked this way?
- Bundling services – adds complexity
- Other income
  - Might it aid marketing produce?
  - New sources?

# And Now?

- Objects of scheme?
  - Simple target (cleaner water)
  - Complex project (water, carbon, biodiversity)?
  - Bundled or layered?
- The seller's approach
  - A price for a permanent commitment
  - Not compensation
- How to find the price?
- If not Exmoor, somewhere
- If not water, something else



# **Assumption**

## **A “Permanent” Change –**

### **For 25 or 50 Years**

# Farming Issues

- How wet
- What effects
- Stocking rates
- Animal disease, health and welfare
- Molinia bedding
- Lost access



# Scheme Issues

- CAP Direct Payments - SPS/BPS
  - Eligibility overall?
  - Ineligible features
- RDP Schemes – HLS/NELMS
  - Interaction with existing schemes
  - What happens when HLS/NELMS go?
- SSSI Management Agreements
  - Interaction with existing agreements
  - Does land become an SSSI?

# Business Issues

- Obligations? Is SWW truly asking for services?
- Public liability, insurance. etc
- Opportunities – denied or given?
- Impact on capital and rental values
- Taxation
  - IHT, CGT, Income Tax
  - BPR - Is this an active business use?
  - APR issues
- Other businesses

# Land Issues

- Agricultural Tenancies
  - requirements of landlord and of tenant?
  - who has control?
  - succession?
- Sporting Tenancies
- Commoners, Rights of turbary, etc
- Mortgagees
- Manorial rights
- Minerals

# The Agreement

- What would it be?
  - Not an easement? Not a covenant?
- For how long? To secure the goals
  - Would we like a 1914 (or 1964) PES agreement?
- How to bind successors?
- Who does the work?
- Penalties for breach?
- Means of variation?
  - New services?

# The Payment?

- The mystery
- This is a price, not compensation
- What does the seller forego?
  - What does he need?
- What does SWW gain?
- Who is more keen?
- Penalties and bonuses?
- Variation and review?
- Relationship with HLS etc?

# The Cost of the Payment?

- The seller has to justify the sale
- The purchaser has justify the payment
- Do the services unlock what is wanted?
- Does that unlock the saving or opportunity
- Who else has a claim on that
- Offsetting – this is an extra cost squeezing the residual value for development site vendor
- That does internalise the externality

# Dartmoor - Contrast

- SWW also considering Dartmoor
  - Ecologically different - deeper peat
- Exmoor has a complex fabric of interacting interests in land
- Dartmoor simpler
  - Major owner, some tenants
  - Most peat is common grazed under rights
  - Commoners have no rights to manage the land
  - Where are they in this?



**What Else?**