

## **Ecosystem markets: opportunity or pipe dream?**

*A practical perspective from a rural surveyor and valuer*

Charles Cowap MRICS FAAV, August 2014

### **Provided for the Ecosystems Knowledge Network**

#### **Introduction**

There are a plethora of new projects and initiatives that are about managing land and landscapes in a more joined up way. Examples: LNPs and NIAs (Local Nature Partnerships and Nature Improvement Areas) in England, Living Landscapes, Futurescapes etc. In the past, the conservation agenda has focused on areas specially designated for the species and habitats within them. People's values and needs for natural elements in the rural scene are increasingly more important – hence all the talk about 'ecosystem services'. There is increasing talk of an ecosystems approach, which is really a systems view of the relationship between people and nature.

Armed with studies such as the National Ecosystem Assessment, ecologists and environmental economists are making the case for nature using the language of economists. There is, for example, increasing talk of nature as infrastructure and a form of capital. The way forward, many would argue, is to identify and create markets that protect and enhance nature's services. Payments for ecosystem services are seen as a key tool. A lot of faith is being put in the power of the market – bringing buyers and sellers of ecosystem services together.

Landowners and managers – those who sit between society's values for nature and reality on the ground – have a different perspective on these supposed 'new' market opportunities. The British landscape has evolved over centuries. Each parcel of land is managed in accordance with legal realities, financial constraints and personal convictions. New markets must recognise this reality.

Land management rarely if ever starts with a blank sheet. For the private landowner, revenue and capital enhancement and long-term asset protection are usually priorities. Succession, continuation and inheritance planning are also normally vital considerations.

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#### **Present day realities**

Land may be occupied by tenants, sporting rights and mineral rights may be held separately, farming policy will always be important. Other schemes may already be in

place, for example Higher Level Stewardship, Entry Level or older schemes (even forestry dedication covenants). The policy and regulatory environment for land rarely stands still for long either. An example is the emergence of the new Rural Development programme following the latest CAP (Common Agricultural Policy) Reforms. Many important concerns might include:

- Supply contracts to consider
- Continuation and succession.
- Water abstraction rights particularly with the increasing emphasis on this vital resource for farmers and growers, and the likelihood of more active management and restriction of access to water by the Environment Agency in the near future.
- Agricultural productivity, animal health and welfare, tenants and other rights holders.
- Other diversification opportunities.

Asset values and return on capital will also be one of the uppermost considerations. For example few rural estates earn a revenue return of any more than 2% a year. In this situation, Agricultural Property Relief and Business Property Relief from Inheritance Tax become an obsessive worry. Failure to qualify will mean that upwards of 20 years' profits will be needed to pay the bill. If a landowner signs up to one of the new initiatives will he still count as a 'farmer' for these purposes? An error here could be very costly indeed – and with rapidly growing farmland and forestry prices the cost is only likely to climb steeply.

There are now many quoted examples of Payments for Ecosystem Service (PES) Schemes but many of those within the UK rely entirely on public funding. Internationally however, there are a number of straight commercial schemes such as New York's water supply and Vittel's water source. We are seeing the fledgling development of similar schemes for water and carbon in the UK.

### **What landowners need to know**

1. **How secure will payments for schemes like Payments for ecosystem services be?**  
Who is best placed to advise farmers and land managers on the evaluation of this risk?
2. **Will participation lead to the danger of a subsequent nature conservation designation** because, for example, we have inadvertently created a SSSI (Site of Special Scientific Interest)? This concern can be exacerbated by the mishmash of schemes which are now used to achieve these outcomes. For example Water Level Management Plans in the Somerset Levels work to a timescale of 100 years, whereas the main mechanism for their implementation is Higher Level Stewardship and the like with timescales of no more than 10 years. Again, where will farmers and land managers source sound independent advice on these key questions?

3. How transferable are the current **payments for ecosystem services** case studies?  
Have they made much progress in terms of signatures and delivery?

## **Conclusions**

New markets need to be a good fit with long and short term plans for farming, tenure, succession and security of income, a solid business opportunity not just another scheme.

Alongside ecological principles, market realities must be tested and respected.

The business case must be clear and incontestable – but the purchasers of ecosystem services must be prepared to accept a reasonable level of risk to their investment in commissioning new forms of natural service from land managers and farmers.

**“the purchasers of ecosystem services must be prepared to accept a reasonable level of risk”**

We are undoubtedly standing at the dawn of a new paradigm in land management – but we need to work with the grain of traditional land management and stewardship if we are to make the most of it – and we need to accept that mistakes are likely to be made along the way if we are to learn as much as we can about the development of new markets in natural capital.