OFFICIAL REPORT
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Net Zero, Energy and Transport Committee

Tuesday 26 March 2024

Session 6

The Scottish Parliament
Pàrlamaid na h-Alba

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NET ZERO, ENERGY AND TRANSPORT COMMITTEE
12th Meeting 2024, Session 6

CONVENER

*Edward Mountain (Highlands and Islands) (Con)

DEPUTY CONVENER

*Ben Macpherson (Edinburgh Northern and Leith) (SNP)

COMMITTEE MEMBERS

*Bob Doris (Glasgow Maryhill and Springburn) (SNP)
*Jackie Dunbar (Aberdeen Donside) (SNP)
*Monica Lennon (Central Scotland) (Lab)
*Douglas Lumsden (North East Scotland) (Con)
*Mark Ruskell (Mid Scotland and Fife) (Green)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Dr Naomi Beingessner (The James Hutton Institute)
Dr Lydia Cole (University of St Andrews)
Dr Josh Doble (Community Land Scotland)
Stuart Greenwood (Shepherd and Wedderburn LLP)
Olly Hughes (Gresham House)
Joel Paterson (Strutt & Parker)
Jo Pike (Scottish Wildlife Trust)
Stephen Young (Scottish Land & Estates)

CLERK TO THE COMMITTEE

Peter McGrath

LOCATION

The Mary Fairfax Somerville Room (CR2)

Scottish Parliament

Net Zero, Energy and Transport Committee

Tuesday 26 March 2024

[The Convener opened the meeting at 09:09]

Decision on Taking Business in Private

The Convener (Edward Mountain): Good morning, everyone, and welcome to the 12th meeting in 2024 of the Net Zero, Energy and Transport Committee.

The first item on the agenda is a decision on whether to take items 4, 5, 6 and 7 in private. Item 4 is consideration of the evidence that we will hear today on natural capital finance in Scotland; item 5 is consideration of a draft report on the United Kingdom Automated Vehicles Bill; item 6 is consideration of correspondence relating to the proposed national outcomes; and item 7 is consideration of a draft call for views on the Land Reform (Scotland) Bill. Do we agree to take those items in private?

Members *indicated agreement.*

Natural Capital Finance

09:09

The Convener: Our next agenda item is an evidence session on natural capital finance in Scotland. On our first panel, I am pleased to welcome Stuart Greenwood, who is a partner in Shepherd and Wedderburn LLP's rural property and business team; Joel Paterson, who is the head of natural capital in Scotland at Strutt & Parker; Stephen Young, who is director of policy at Scottish Land & Estates; and Olly Hughes, who is managing director of forestry at Gresham House. Olly, thank you for agreeing to join us at slightly the last minute.

It will be an interesting session, and I know that members will have lots of questions. The temptation for witnesses is to want to answer every single question. As nice as that might be for you, it is not possible for me because it would mean that I cut out some of the committee members, which would cause a disagreement afterwards that I would have to resolve. If you agree with what somebody said, you do not need to say any more, but, if you want to come in, try to catch my eye or the member's eye and we will bring you in, and I will try not to cut you off.

Before we go into the session, I remind members of my entry in the register of members' interests, in that I am a member of a family farming partnership. We farm 500 acres of land that I own in Speyside, and we are tenant farmers of another 500 acres in Speyside. I can say quite categorically at this stage that I have not invested in natural capital, because I do not understand it. Maybe all will become clearer today.

The first questions are from Bob Doris.

Bob Doris (Glasgow Maryhill and Springburn) (SNP): I think that it is fair to say that members will be on a learning curve for some of this. What levels of activity are there in natural capital finance in Scotland, and what impact is that having on land use? Convener, I have a supplementary question, which I will roll in due to time constraints, so that I do not have to come in twice on the same point.

My questions are about current levels of activity and the impact that that is having on land use. It would also be interesting for anyone who is watching the session to get an idea of your organisation's interest in the sector, to give a context to your evidence. Perhaps Stuart Greenwood could start.

Stuart Greenwood (Shepherd and Wedderburn LLP): Starting with our interest is probably easiest. I am a lawyer by profession. We act for landowners, investors and project developers on any side of natural capital projects. I have been doing that since about 2018.

On levels of activity, I would say that some larger players are reasonably active, but broader activity is relatively subdued. That activity has probably tailed off a little bit more in the past couple of years because the larger funds and players that have been active are hitting capacity or hitting saturation with the units and projects that they have been undertaking. That has been my experience.

Joel Paterson (Strutt & Parker): I am the head of natural capital in Scotland for Strutt & Parker. Our role is as a land management adviser. Our typical clients are landowners, but, through our parent company, we also have connections with commercial investors who are looking to get into the natural capital space. In practical terms, we help landowners and investors to take forward projects, whether in woodland creation or peatland restoration. That can be for a variety of reasons and not simply for the carbon capture element of it.

On levels of activity in natural capital, we have definitely seen an increase over the past few years. No doubt that is in part being driven by the expansion of the carbon markets for peatland and woodland carbon. More work is being done on the ground, but we are still far behind in the targets that we as a nation have set for the amount of peatland restoration and woodland creation that is required to hit our net zero targets.

We are still seeing relatively limited activity with regard to the trading of carbon credits and that sort of thing. Where those carbon credits or their precursors, such as pending issuance units, are being generated, there has not been a big volume of transactions in the market so far.

09:15

Stephen Young (Scottish Land & Estates): Scottish Land & Estates is a membership organisation for land managers of all shapes and sizes across Scotland. We have private landowners, corporate landowners, community groups, tenants, crofters and all sorts.

I agree with Joel Paterson. There is a lot of activity and a lot of interest—we have seen a lot of peatland restoration and planting of trees—but the natural capital market, as in the physical trade of carbon credits or pending issuance units, is at a really low level. Part of that is the lack of understanding of the long-term impacts of the market, the long-term risks, the long-term requirements and the contingent liabilities.

Therefore, there is a lot of activity, but the physical sales levels are really low, and there is not a lot of money changing hands yet. However, it is certainly of interest to all land managers across the country.

Bob Doris: Therefore, although the trend is upwards, it is all still at a relatively modest level.

Stephen Young: The trend is upwards in terms of the general quantity of planting. We are still not hitting annual planting targets. We are nowhere near hitting annual peatland restoration targets, and the trade in carbon—

Bob Doris: I apologise, but I was talking about investment. We are looking at different outcomes and at how we leverage in finance to do some of the environmental work. I do not want to ask someone else's question, convener, but I was clarifying that the trend appears to be up but that the level is still relatively modest in global numbers.

Stephen Young: Yes, that is fair.

Bob Doris: Thank you. I apologise for cutting you off, Mr Young.

Olly Hughes (Gresham House): Good morning. I apologise that I cannot be with you in person, but timeframes did not enable it.

For background, I am the managing director of our forestry division at Gresham House. We are a specialist asset management business, based in the UK. We have been actively investing in forestry on behalf of a wide array of clients over the past 30 years in Scotland, England, Wales and Ireland. We manage somewhere in the region of £2 billion-worth of land and forestry assets. To be absolutely clear, we are managers; we often get misrepresented as owners. We are a fund management business and act on behalf of a wide array of clients, such as pension funds. The Scottish National Investment Bank has even invested in one of our funds, so we act on behalf of those investors—just to be clear.

We have been actively supporting the development of natural capital and land use. It is worth teasing out the broader definition of natural capital. Clearly, in this meeting, there is a core focus on carbon and biodiversity. We would also include all nature-based things within natural capital, such as timber and the use of that natural capital resource. We have been investing in those assets for some time. Over the past two to three years, we have probably planted somewhere in the region of 5,000 hectares of new forestry in Scotland alone, across a wide range of forms, from commercial plantation forestry to more native broadleaf forestry. We have been active participants in the carbon markets through the UK Woodland Carbon Code, principally through timber and forestry assets, but also, to a smaller extent, through peatland.

I echo the statement that the market is still very small. Globally, the voluntary carbon market still remains a very small market compared with compliance markets under the European Union emissions trading scheme and other wider ET schemes. The trajectory is upwards, with greater demand for carbon and carbon opportunity, but, at the same time, the market is nascent and remains, frankly, quite risky for investors to invest with the purpose of a long-term stable outcome. All those markets are very long-term markets, and their nature and the fact that they are still relatively nascent should be taken into account with regard to appetite and growth. However, the trajectory is positive.

Bob Doris: That is helpful, because, in evidence, we are hearing about modest numbers, but the activity with regard to woodland has trebled in four years. To an outsider, that looks like significant growth, but it is still relatively modest, given what we have to do.

I will move on. It was helpful to get everyone to set the scene, but it might be that not everyone will need to answer my next question. We are keen to know what is motivating different actors to engage in the area. What is making investors get involved? For example, what is motivating land managers to develop and certify projects, and what is motivating investors and buyers on the market side? What is getting those investors involved and land managers to come to the table and play games? What are the driving factors? A couple of witnesses might want to get some of that information on the record. Mr Paterson is nodding at me, so I suspect that he wants to come in.

Joel Paterson: There is probably no single answer. There are a range of motivations for a range of different actors. On the landowners' side, the opportunity to enter into natural capital markets—be that woodland or peatland carbon, biodiversity or whatever—is an opportunity to diversify revenue from land, particularly land that traditionally has relatively low productive capacity in agricultural output and that sort of thing. Many landowners are also motivated to do their bit to contribute towards solving climate and biodiversity problems.

Investors, too, have a number of motivations. A lot of investors, or the people for whom they act, have made net zero commitments. Offsetting is part of that, along with, crucially, and first and foremost, the decarbonisation of their activities. Some of those people are moving relatively early to invest in this space so that they are able to offset when they are ready to do so.

The other motivation is, undoubtedly, seeking out potential for return. We see some early investing in this space by early adopters; they hope that carbon prices will rise in the future and, therefore, that either they will save on having to buy carbon credits later at a higher price or they can sell them to others in the future and make a return on their early investment.

Bob Doris: It is always dangerous to ask a question when I am not quite clear on the context. You mention return. Is there a yield on that? Can you quantify it in percentage terms? Would 5 per cent be an impressive yield for such a financial investment? What are we looking at? I get that investors might want to do the right thing, but there is a financial imperative—they want to make money.

Joel Paterson: There is an element of that. Investors and investment firms have a fiduciary duty to make some element of return from their clients' money or their own money.

I do not think that there is necessarily a specific rate of return; each case will be different. Other witnesses are perhaps better placed to answer that question. In the Scottish Government paper on mobilising investment in natural capital, it looked as though that might mean looking for a 5 per cent return in the short term or perhaps 15 per cent in the longer term.

Bob Doris: Thank you. Mr Young wants to come in.

Stephen Young: I will build on what Joel Paterson has said and, from the other side, look at the drivers for investment, because there are other things to consider, too. Away from the natural capital and carbon markets, the timber market has been really strong. It is a time of uncertainty and, whenever that is the case, the markets for tangible assets such as land and gold tend to strengthen. We have seen that kind of uncertainty in recessions.

Another factor that is tied to planting trees and so on, which we cannot get away from, is the fact that agriculture has not been overly attractive recently, so the motivation for that change in land use has probably become stronger, and that has probably opened different doors.

There are two sides to the issue. What is bringing people in? What is the push and what is the pull?

Bob Doris: On diversification, Mr Paterson talked about revenues. Does any witness have anything to add that is not already on the record?

The Convener: I have a question before I bring in Olly Hughes, who has raised his hand. Perhaps he could help me to understand this.

I appreciate that it is a few years since I was a surveyor, but upland hill land used to price at about £1,500 an acre if the person was lucky and it had planting potential. Two years ago, I heard prices of £14,000 to £20,000 an acre—perhaps Gresham House was paying less or perhaps it was paying more than that. However, I hear that the market has dropped off. To put that into context, we are probably now talking about a maximum of £4,500 to £5,000 an acre for grade 2 arable dirt. There was a huge bubble. Will you get 5 per cent on £14,000 an acre—sorry, per hectare, I should say—Olly?

Olly Hughes: The core drivers of private capital are predominantly the pension fund sector and the insurance fund sector. Although they have incentivising carbon and climate challenges, they will ultimately require a baseline return on their investments. Currently, there is a target return of around 7 to 8 per cent on a long-term patient investment of 20 to 25 years. That is not a significant return expectation. The return is usually made up of a proportion of capital growth within the underlying value and a cash yield from the sale of timber or the realisation or sale of carbon. Just so that we are clear, that is the expectation. That is the first point.

The second point is that those investments that we manage and look after are very long term. The rotation of trees and the cycle of carbon lock-up funds are around 20 to 25 years. Consequently, although there have been capital appreciations, we have to look at the return over that very long-term period.

On the numbers that the convener referred to, although there was a spike in price, that has been aligned with the long-term expectation of timber value and the long-term realisation of that timber value, and that return will be expected to be delivered over a 35-year period.

There is a combination of all those different factors. I hope that that makes sense.

The Convener: Okay. I will let Monica Lennon come in briefly. I ask her to target her question to one person, as I am conscious of the timings.

Monica Lennon (Central Scotland) (Lab): I am eager to oblige, convener. I have a brief question for Olly Hughes. What percentage of tree planting that is carried out by the Gresham House fund in Scotland is native species?

Olly Hughes: In all our planting schemes, we look to combine, and we follow the UK forestry standard and the UK woodland assurance standard. We adhere to optimising the output of each forest in our schemes, and every forest has to follow those guidelines. Broadly, somewhere in the region of 60 per cent of our forestry is productive forestry with a variety of different species—usually conifer species—and around 20 per cent will be in the form of native broadleaf. The remainder will be open ground and an area for biodiversity. If you look across our funds, you will see that that is the broad break-out of assets.

The Convener: Douglas Lumsden has some questions.

Douglas Lumsden (North East Scotland) (Con): I will stay on the theme of investment. What are the investment models and lengths of contracts involved for land managers? Do they differ significantly between peatland and forestry? How are project risks managed and shared between the various actors that take part? I ask Stephen Young to answer those questions first.

Stephen Young: It might be better if some of the other witnesses talk about contracts. The risks usually lie between the developer of the project and the landowner. There are risks in all these things. People are in very long-term contract agreements, and there is potentially a clawback if things go wrong. People have to manage that risk.

There is also the risk of the land valuation. If someone has sold carbon credits off the land, they risk potentially devaluing the land, because they still have the liability of managing it but they do not have the asset of the credits there.

Generally, the risks are for the developer or the landowner, depending on how they have structured them and how they want to do that. There is a balance between risk and reward in respect of the contracts.

09:30

Stuart Greenwood: We often see woodland contracts with a duration of up to 99 years, and peatland contracts tend to sit at around the 50-year mark, although that can vary slightly.

Stephen Young has already referred to some of the risks. We all know that the woodland carbon code operates a buffer whereby it keeps back a percentage of the units from each project against the possibility of unforeseeable loss events. We are also seeing project developers and landowners privately structuring their own buffers outside that system, in case something goes wrong. That can also act as a hedge for landowners, because, as has been said, anyone who sells all their units up front extracts all the value and is left with the risk period, whereas keeping back a percentage of units helps to maintain some of that value while also hedging against future increases in carbon values.

Douglas Lumsden: Does anyone else have something to add?

Stephen Young: I have one point to make. Even beyond the end of the contract, particularly for woodlands, there is a permanence requirement. The woodland cannot revert to being agricultural land or go back to any other form of land use: there is a permanent land use change.

Douglas Lumsden: Is that seen as a risk that might harm the market, or is it not really seen as a risk at this point?

Stephen Young: I think there is a risk to the scale of delivery. It affects how people perceive land in Scotland and whether they have the freedom to get out of the market if they want to. That is a big thing. Also, the fact that things are changing creates uncertainty, so people may be less likely to invest in Scotland. That will not be clear until we see how it actually plays out, but the signals that we are getting from some people are that it creates uncertainty, which will reduce investment.

Douglas Lumsden: Mr Hughes, you said that the Scottish National Investment Bank has made an investment in Gresham House. Was that done to leverage funds in from elsewhere? How was that investment structured?

Olly Hughes: To be clear, we launched a fund that focused on afforestation and the planting of new trees in Scotland. The structure of support for forestry is that there are, as you are aware, grants for planting but there are no further additional values for investment return until those trees start to deliver timber, in 35 years' time, which means that it is a very long-term investment.

We worked alongside the Scottish National Investment Bank, which invested in our fund to support and catalyse the bringing in of institutional capital to support investment in the afforestation sector and to support the Scottish Government's planting targets. We believe that we have gone a long way towards supporting those in the past two years by planting the hectares that I mentioned earlier. That is an investment in the fund, for a period of time, on behalf of SNIB, to deliver a return. The key measure was to catalyse the fund and the investment under that new afforestation structure.

Douglas Lumsden: That is helpful.

The Scottish Government has set out its ambitions to support the growth of natural capital finance approaches. Are those ambitions realistic, and can the Government actually achieve what it intends to do?

Olly Hughes: Is that question for me?

Douglas Lumsden: It is for Joel Paterson first.

Joel Paterson: That is ambitious, but ambition is needed. There is no doubt that we are in a climate and biodiversity crisis.

There is some debate about the amount of private finance needed, but there is definitely a role for private finance to come into the space and to help to meet the targets without putting too much of a burden on public funds, which are already stretched.

I see the role of Government as setting the guide rails that allow private finance to come into this space and help to scale it up, setting out what it expects in terms of responsible private investment and using public funds in a way that oils the wheels, so to speak, to bring more private finance into this space.

Douglas Lumsden: Do you think that the Scottish Government will actually achieve its target, and will it be able to attract all the private finance that it needs to do so?

Joel Paterson: Various mechanisms are being looked at to help to do that. It is too early to say how that is going to play out or what methods might work or not work. The Scottish Government has made good strides in setting its ambitions with regard to what it wants to see from private finance in that sector, but more needs to be done to set out different ways of levering in private finance. As I said, we are at the very early stages of that, so it is hard to tell what effect that is going to have.

Olly Hughes: A lot of expectation is being piled on to one outcome, and there needs to be a careful separation of expectation from a climate perspective, from a nature perspective and from a productive land use perspective. It is hard to make the same bits of land do all of those things at the same time, so we have to be careful not to put all of them into one pot. We must not put all of our expectation into one outcome; rather, we must separate out those elements. Carbon reduction, biodiversity and sustainable production of fibre and material for the future are all separate important targets, and they need to be aimed at separately. If you put them together, it will be difficult to reach any of those goals.

Stephen Young: As I mentioned, we are missing targets currently. I think that the appetite is there to catch up in that regard, and that it is possible to do so, but we need really clear, long-term signals—we cannot chop and change from year to year or every five years. Land management has always been a long-term game, and that is even more important when we are talking about forestry and biodiversity.

What is required is pump-priming at the start of the process, and the Scottish Government has been good in that regard. Because it is a long-term business, there is a high capital requirement at the start, and we need to get over that to allow us to move forward from there. That is what is required, and we need to think long term.

Even leaving aside the issue of finance, there are long lead-in times for issues such as the availability of contractors to do all the work and the supply of nursery stock for all the trees that need to be planted, so we have to be consistent in what we are doing and be clear and focused on where we want to go.

Douglas Lumsden: Has the Scottish Government set out its ambitions in that regard, or is there still something missing?

Stephen Young: The ambitions are there, but some of the policy levers under that could be better, stronger and more consistent.

The Convener: I have a final question before we leave this issue. Stuart Greenwood, you mentioned contracts of 50 years and 99 years. Is there any business in the world that knows where it is going to be in 10 years' time, let alone in 99 years' time? I ask the question genuinely. You might take money now for something that involves a 99-year obligation, but you do not know what the situation will be in 10, 20, 30 or 40 years' time. Taking that money completely sterilises the land for that period, because you have a 99-year obligation. How can anyone apart from a massive pension fund be in a position to take that risk?

Stuart Greenwood: The situation that you describe is the case if you take all the money up front and try to sell all the units, but the units are typically released in five or 15-year vintages as the scheme progresses, so it is possible to structure the arrangement so that you take the money as and when the units are released, rather than taking it all out on day 1.

The Convener: Yes, but you are suggesting that each vintage will reach maturity, which some might not do. In those cases, whoever ends up with the land, on this merry-go-round of land sales, ends up with all the obligations on it. If I were going to buy something with obligations that I could not necessarily quantify, I would not pay very much for it.

Stuart Greenwood: You are absolutely correct, which is why a number of owners would keep units back, so that there is some value. Otherwise, as you say, you could be taking on land that is solely encumbered by obligations to administer a scheme but where someone else has taken all the carbon.

The Convener: It sounds a bit like a Ponzi scheme to me, but maybe I have it wrong.

Mark Ruskell (Mid Scotland and Fife) (Green): I am struggling to see how the huge amount of wealth and benefits that will be generated by these markets will be shared with small-scale community projects, tenant farmers and crofters. How are you making sure that the schemes are accessible to those types of landowners and that they are fully involved in realising and benefiting from them? I will start with Stuart Greenwood.

Stuart Greenwood: There is a real challenge when it comes to crofters and tenant farmers, in particular. They are—to be frank—subject to well-outdated legislative regimes that were made without carbon or natural capital in mind and that are stifling the ability to effect investments in crofting land or land that is subject to agricultural holding. To open that up, there needs to be a look at what can be done on the legislation side to better facilitate that investment or to create mechanisms to allow it to happen, because, at the moment, that is a real challenge.

Mark Ruskell: Could that be done through the Land Reform (Scotland) Bill?

Stuart Greenwood: It could be.

Mark Ruskell: Joel?

Joel Paterson: I agree with what has just been said. Work definitely needs to be done on how crofters and farm tenants can engage in the markets. I know that some initiatives are looking at doing that work, but they are not quite there yet.

Through their various iterations, the woodland and peatland carbon codes, and certainly the latest version of the peatland code, made quite a big step by requiring community engagement on those projects. The Scottish Land Commission fed in on how that engagement should be done and handled. There is some regulation requiring that.

Although the market is in its infancy, there is already some incentive in it for sellers of carbon units to consider the social impacts of their projects and how they can add value to the community. Generally, we are seeing slightly higher prices being paid for what could be considered better-quality and higher-integrity carbon credits where, for example, it can be demonstrated that a project has used local contractors, engaged with the community, been used for educational purposes or that sort of thing. Generally, buyers of those sorts of credits are willing to pay a bit more over and above the carbon value for those units, so that feature is already in the market.

Mark Ruskell: Okay.

Stephen Young: There are some crofting projects that have gone ahead. They can be quite tricky, because the agreement of everyone on the grazing committee and the landlord is required, and the projects can lead to a reduction in grazing. Everyone needs to pull in the same direction, and they need to work out the risk and reward among themselves as well. That can be done and it has been done.

One of the difficulties is that, because they are such long-term agreements, if one goes wrong, it ultimately falls back on the landlord, so landowners carry the majority of the risk in how it works. Some people look for standard securities over land, as well. The question is how the risk is balanced.

For agricultural holdings tenancies, there are things that can be done now without the need for more legislation. There are areas of freedom of contract where you can do that. The land management tenancy would allow that, and I think that it is structured to try to do that. There are ways of doing that now, under different contracting situations.

Sometimes, more legislation does not lead to better outcomes; sometimes, having that freedom of contract allows two parties to work together to deliver it. In that setting, neither the landowner nor the tenant can enter the market unilaterally—they have to go together. It is really a case of getting round the table to sort out where the risk and reward lie. The two of them need that agreement, and there are ways of doing that.

On community wealth building—sorry, I am rambling on a wee bit here—some of us are speaking to the Land Commission and other groups about their work. One of the difficulties, which we have touched on today, is that community wealth building seems currently to be based on cash payments rather than payments in kind. In this type of market, there is very little cash at the beginning—it tends to come later—so it is about how you deliver a benefit at the precise point where cash is a pinch point. The question is how we can deliver different ways of doing so. Since there is no pot of gold to share at the start—it is a dribble or a trickle—how do you manage those flows properly? Particularly, how do you manage expectation when we are talking about 50 or 99-year agreements? Work is going on in that space.

09:45

Olly Hughes: I cannot comment on those areas of crofting and communities buying their own things, but I can comment on how we are trying to support, and interact and engage with, the communities with which we are involved.

We are putting in an awful lot of effort, and we want to bring out what we hope are really interesting case studies as to how we are entering into communities and developing sites across forestry, biodiversity and nature-based restoration, and then enabling access, creating jobs and an economy, and providing areas for development for communities. We are working very hard on how to bring together that patient, long-term capital to provide support to communities.

It is not simple. As the market evolves, we will have to work out where that support needs to be focused in a more nuanced way than it potentially is now, but we are making good strides in developing that. One model that the renewables sector has used just involves cash, but we can deal with the matter in much better ways, which we are trying to tease out and are making some progress on.

Mark Ruskell: Okay. Mr Hughes, as managers, I presume that you are generating substantial amounts of wealth for your investors, but Gresham House itself will be generating substantial amounts of wealth on the back of those markets. How is that wealth then distributed? As I understand it, Gresham House consists of four limited partnerships. Are there any community, tenant farmer or crofter interests or wider community interests in those partnerships? Are those interests involved in management of assets and the market? You could perhaps tell us who is involved with the limited partnerships that comprise Gresham House.

Olly Hughes: As I have said, the limited partnerships are collective investment vehicles that bring together an array of investor types including—as we discussed—pension funds, insurance companies, family offices and individuals that put considerable amounts of capital at risk to deliver long-term stable income. We have to be careful: I am not suggesting that the numbers are not big, but what are targeted are 7 per cent or 8 per cent returns that are distributed over very long periods, so there is no significant realisation of capital.

Gresham House takes a fee for managing those assets. That is all that we take; we do not have a principal participation in those funds. A couple of the funds have historically had performance benchmarks attached, but we are managers and we take a fee for managing those assets. It is, indeed, a profitable business; that is what we do.

How we are working that out is in our being able to maintain a return that encourages and enables people to still invest, but which also engages and works with local communities. We have not yet fallen in with any structures in which we have provided specific cash payouts to communities, or specific positions on investment in our LPs.

We are trying to work out how to bring value to communities, how to enable access to the assets and how to enable communities to generate and build a living off them. However, we are absolutely against closing and locking things up to preclude local communities from making a living from assets, because their doing that is absolutely key.

Mark Ruskell: However, with regard to management of that market, you do not have any communities that are directly involved in the work of Gresham House. They might benefit from some of the investments that you manage in the long term, but there are not actually any communities, tenants or crofters involved in Gresham House itself.

Olly Hughes: No communities have invested in our funds.

Monica Lennon: On community wealth building and the just transition, I am interested to hear from each of our witnesses about the extent to which the market is delivering multiple benefits in terms of communities, nature restoration and making Scotland more resilient to climate change.

Stuart Greenwood: Some of the projects that have gone through in the past four or five years have been community focused. I can think of a specific one that involved a prominent community buy-out. It was part funded against carbon from future projects in order to plug a funding gap and help the community buy-out go through. We have seen other projects delivered in which a charitable, or quasi-charitable, organisation has partnered with and provided funding to communities to carry out their own schemes, with a view to realising carbon and natural capital benefits. Therefore, we have seen a few select examples, but I would not say that I have seen that in broad practice across the board.

Joel Paterson: I am inclined to agree with Stuart Greenwood. There are some good examples of community involvement in projects. There are a number of potential benefits to communities that are not simply financial. In many cases, communities are the principal benefactors of nature restoration projects in terms of increased biodiversity, more open access, reduced risk from wildfires, improved water quality and reduced flood risk. Those are the kinds of benefits that can be derived from projects and from investing in nature—benefits that go above and beyond financial recompense. That is often overlooked in relation to schemes.

Stephen Young: I reiterate what others have said. There are some good examples of community partnerships, but we should also look at the multiple benefits of land management as a whole. It is important that we have land management that creates jobs and maintains housing—that is hugely important—as well as providing the amenity benefits that we have talked about. There are obvious natural capital benefits, but that is not just about carbon and biodiversity; it is also about flood management, wildfire management and all those things lumped together. There are various benefits. It is difficult to say that there is one specific area of benefits—it is about delivering a range of benefits across everything, if possible. However, a lot of what is done is about maintaining communities, so a scheme's provision of housing and jobs is probably the number 1 priority, in many cases.

Monica Lennon: You mentioned maintaining jobs and job creation. Can you expand on that and give the committee a bit more insight?

Stephen Young: Let us take the examples of tree planting and peatland restoration. Maintenance of such projects requires skilled people, so work is something that those projects can deliver. The amount of work is hard to quantify, which relates to the difference between current and future use of agriculture. Often, there is less labour required for upland farming than for tree planting and subsequent maintenance.

Monica Lennon: Mr Hughes, in response to Mark Ruskell's questions, you talked about the Gresham House fund making "good strides". You also mentioned job creation. How many jobs have been created in rural Scotland as a result of Gresham House funds' forestry activities in Scotland?

Olly Hughes: I will get to that. It is important to note that anything that we do from a perspective of land-use change, afforestation and tree planting must involve the community fundamentally. We work very hard to make sure that we interact with the community on our plans, so that they are as sympathetic as possible with local requirements and needs. Historically, our sector has not been good at that, but we are getting much better at it and are making sure that we adapt and change.

In our plans, developments and models, we absolutely focus on using local resource—local people—to plant, manage and operate. Remember that in the forestry sector it runs upstream and downstream: sourcing the plants, planting them, operating—managing them—then, ultimately, harvesting them. That delivers jobs in the timber-processing trade, which is now a very significant Scottish industry.

Because of that upstream-and-downstream factor, it is hard to measure exactly, but our assessment is that we have created something in the region of 200 jobs just from planting that we have delivered over the past two to three years. It is hard to verify the number of upstream and downstream jobs, we are not bringing in external resource. Delivering local outcomes has to use local resource.

Monica Lennon: Thank you for that answer, Mr. Hughes. It is important that a parliamentary committee takes reliable information. It sounds as though you are not sure that the number is 200. It could be more or less than that.

Olly Hughes: I do not want to overlabel it, but that description is perfect, because there will be some variation in the numbers.

Monica Lennon: Okay, but do you agree that it is important for the committee and Parliament to have a good idea of how many jobs are involved? We have heard that Gresham House is an investment fund for high-net-worth individuals, and that it is supported by public subsidies—£50 million from the Scottish National Investment Bank, I think. That is a lot of public money. Of course, there are also various tax reliefs.

The committee and Parliament are concerned about the progress that we need to make on the just transition: we need to pick up the pace. What is happening to people's jobs is at the heart of that. You said that it is hard to verify the figure of 200 jobs, so can you go away and look at that and get back to the committee? Does the SNIB not ask you to give figures on jobs?

Olly Hughes: Yes. In effect, how we verify the figure is through information in an interesting historical paper that was put together on the effects of land change through transitioning land on Eskdalemuir from sheep to forestry, and the variation effects on that. Within that paper, there are multiple numbers on transitioning land from traditional sheep farming to forestry. We apply a multiplier effect rather than count X and Y jobs here or there. That is why we have that number. I would be happy to go into that and bring it back in a form that the committee can utilise. I want to make it clear that, because we use multiple suppliers and contractors that are all involved in multiple projects, it is very hard to say that a job was created by a specific project. The initiative creates a living for those people because of the scale of the opportunity: they can work over an array of projects.

Monica Lennon: Thank you. The committee would welcome more information on that.

I will go back to my earlier question about native tree planting. I think that the figure that you gave for native broadleaf was 20 per cent. I have dug out some correspondence that the bank gave to the committee previously. It expected that 46 per cent of the planting would be native broadleaf, which would exclude the open-ground figure of 20 per cent that you gave. Are you on track to meet that expectation? I am not sure whether that is a target or an expectation, but is that going as well as it should be going?

10:00

Olly Hughes: We have to be careful. I was talking in the round about Gresham House. We manage significant areas of forestry across Scotland. The Scottish National Investment Bank has invested in a specific growth and sustainability fund. I reiterate that it has invested in that fund; it has not supported it. That is an investment by the Scottish National Investment Bank to deliver an outcome for the people of Scotland. It is not a grant or a support; it is an investment.

We continue to aim for those targets. From all of our correspondence and communication with the Scottish National Investment Bank, it appears that it is happy with the outcome in terms of the criteria and the targets that we have hit.

The 60:20:20 division is very much a broader break-down of our forestry assets across Scotland. Some of the numbers will come from historical forestry, which had a much higher proportion of conifers planted, which happened in the 1960s and 1970s. However, there is a fundamental change in the process and delivery of forestry. Members will be aware that the UK forestry standard has just been changed to limit the maximum amount of a single species within a forest planting scheme. We are seeing within the national forest stock a fundamental change, right now, to a much lower single-species reliance.

Monica Lennon: Okay. Thank you, Mr Hughes. I would certainly welcome further correspondence to clarify some of the figures. I do not know whether it is just me, convener, but I did not fully follow all of that.

I have a couple more brief questions for the rest of the panel. I want to turn back to carbon credits and to get an understanding of how carbon buyers use them. Are carbon credits being used as part of corporate offsetting strategies or are they being traded or retained as commodities? What standards are being applied to ensure that offsets are being used responsibly—for example, to offset genuinely unavoidable emissions?

I am not sure who would like to go first on that.

The Convener: Maybe we could give Olly Hughes a rest. Would Joel Paterson like to head off on that? I will then bring in one other person. I am sorry, but we are quite tight for time.

Monica Lennon: That is fine.

Joel Paterson: No problem.

I will go back to a question that was asked at the start of the meeting about the size of the market and the number of transactions that are happening. At the moment, because this is such a new area, it is very small. There are quite a number of what are known as pending issuance units, which are precursors to carbon credits being generated. In the case of peatland carbon, no verified peatland carbon credits have been generated, so none has been traded. It is therefore really difficult to get a handle on how companies are going to use them. Some precursor pending issuance units have been traded in the market, but that is a relatively small number compared with those that have been generated overall. Therefore, again, there needs to be some caution about how we take a view on that.

There are a number of national and international standards and regulations coming into place that relate to how companies make claims around net zero, carbon neutrality and such things. That is definitely becoming a much more tightly regulated place in order to prevent greenwashing. Users of carbon credits should absolutely be signed up to standards: they should be signed up to the science-based targets initiative or others. That initiative sets out strict criteria in respect of how they need to decarbonise their activities.

Carbon credits and use of offsets should always be the last step in the chain-of-mitigation hierarchy. However, it is very early days to tell how that is being done.

The Convener: Olly, do you want to come in briefly, or is that sufficient?

Olly Hughes: What Joel Paterson has said is right on the money. There are very few real units in the market for trading, at the moment. We have seen some PIUs forward sell, but we will have to wait for another three or four years until volumes start to appear to see how people manifest that. In our fund structure, we have created a model in which people can either take those units in specie and use them for their own insetting purposes, or sell them. What we do not know yet is what people will elect to do.

The Convener: Okay. Perfect. Mark Ruskell has a question.

Mark Ruskell: I want to ask about how the interim principles for responsible investment are working. Are they being followed? Do they need to change over time so that we get an higher-integrity market? Should they be codified in legislation? I suppose that the clue is in the title, in that they are “interim principles” for responsible investment, so we are on a journey. However, you emphasised the need for certainty. Where do you see the principles going? Are they working right now to deliver a high-integrity market? Do they need to change and, if so, how?

Stuart Greenwood: My experience has been that more rigour and integrity in the market would be helpful. We have talked about attracting investment, but to do that we need land that is open and is coming to market for projects. I have had meetings in which clients talk about carbon units and PIUs in the same breath as they talk about bitcoin, for example, because they perceive those as being far too risky. Any greater integrity or rigour that we can bring will be helpful only for getting the land that is needed for the investment.

Olly Hughes: I would echo that. From the perspective of our supporting this approach, we are still very much of the opinion that in order to deliver a long-term outcome, we look to an underlying real asset in the first place—in our case, that is traditional timber—and we then look to optimise sustainability and climate impact, over and above that, as a benefit. Until the markets are more stable and mature, it will be hard for us to continue to increase the amount of capital allocating. We are going in the right direction, but some stability and certainty would be very helpful.

Mark Ruskell: So, you do not have a view on whether the current principles are the right ones, but you want to ensure that, whatever principles we use, they give certainty to allow greater investment, going forward?

Olly Hughes: Yes, that is a fair statement. We do not disagree with the current principles at all. We would like to see some stability and certainty in them, moving forward.

Mark Ruskell: Okay, thanks. Joel Paterson or Stephen Young, do you want to come in?

Joel Paterson: The interim principles are good and they set a clear message from the Government on what it expects. As this space evolves and the markets start to gather pace, the principles should be kept under review and need to keep pace. At the moment, they are good and they send a clear message.

Beyond that, the Scottish Government can do more to support a high-integrity nature market. Other pieces of work are already going on that are supported by Government, both at UK and Scotland levels. For example, we have the consultation on the British Standards Institution nature investment standards. A lot of work is being done in the Voluntary Carbon Markets Integrity Initiative. We have the peatland and woodland carbon codes and there is development of a UK green taxonomy. All those things together will only help to build integrity in the market and set the rules of the game, so to speak.

Until all those things are in place and we see how that plays out, it is perhaps too early to say whether the principles need to be absolutely codified in legislation. Lots of other things could come in to support what is happening.

Stephen Young: I will be brief, because Joel covered quite a lot of what I was going to say. Scotland does high-integrity markets for various things, and it does high-quality produce really well. None of us wants any other type of carbon crediting market operating in Scotland—I do not see why it should be any different. The principles are welcome and are working, for now. I feel like a stuck record, but it is early days: we will see how it plays out but, currently, they are working well. That is not to say that they will not need to be tweaked in the future.

Mark Ruskell: Thank you.

The Convener: The deputy convener is next. You are up, Ben.

Ben Macpherson (Edinburgh Northern and Leith) (SNP): Good morning, panel, and thank you for your time. I have two questions. I want to set aside forestry and tree planting, as I know that there has been some discussion on that—for example, the Royal Society of Edinburgh recently published a report on public financial support for tree planting and forestry. However, I am interested in other areas of natural capital financing. Are there any aspects of Government support, be that legislative measures, tax relief or interventions by enterprise agencies, through which we could do more to attract the patient capital that is looking for places to grow and add to the common good of improving biodiversity and tackling climate change?

Stephen Young: Everyone is looking at their shoes.

Ben Macpherson: I should say that the question is about not just Scottish Government support but UK Government and local government support. Is there anything that you have not mentioned in previous answers that you want to highlight?

Stephen Young: Biodiversity is the obvious one. I know that the Scottish Government is considering making available biodiversity credits and tokens. Again, the quantification of that is tricky, as it is not a tangible thing like a tree. There could be more help there. Looking across the UK, we have the biodiversity net gain approach in England and Wales. There is still a lot of work to do on how that potentially looks in Scotland and how we can encourage more capital into rural areas to deliver some of those multiple benefits. That would be the obvious area to concentrate on. NatureScot is doing work in that area.

Ben Macpherson: Is the engagement with NatureScot being done in a collaborative way?

Stephen Young: Yes, I think so. I feel that we are a little bit behind on that at the moment, compared with other countries.

Ben Macpherson: In what sense?

Stephen Young: I am talking about the market readiness of biodiversity. There is a need to decide on which token or credit will help the finance to come in and work in those areas. We need to move that forward. We are not far away, but we could move a bit quicker.

Ben Macpherson: Joel Paterson, do you want to add anything?

Joel Paterson: Yes. To echo some of what Stephen Young has just said, we need the creation of new codes and standards for other aspects of nature markets, be that biodiversity, soil carbon or hedgerow carbon. Some of those are already in train, but we need frameworks that everybody works to, rather than having lots of actors doing things in a slightly different way, which makes it a very complex place and one that is difficult to engage in and monitor.

Other things could be done. We are starting to see some clarity on the taxation of such schemes and the treatment of credits and other things that come out of them, but more clarity on that would certainly help.

It could help if there were some support for developing different models of investment in those types of nature restoration project. Some work is under way on that, and it would be good to see the findings of that work. If the learnings were published, it could help others engage in the space.

Also, to some extent, if public funds were used sensibly and responsibly to help to de-risk some of the elements of those markets, it might encourage, or at least catalyse, private finance to come in. However, that needs to be measured and balanced. It would not be fair for the public, and public funds, to accept all of the risk in those schemes, but they can definitely help to leverage in private finance.

10:15

Ben Macpherson: That, of course, will require the UK and Scottish Governments to work together.

Joel Paterson: Yes. The other thing about those markets is that the woodland carbon code and the peatland code are part of a UK-wide system. Within the UK space and corporates, carbon has to work right across the UK. Different standards in different countries will make it even more complex.

Ben Macpherson: And some of the issues that you raise are reserved.

Are we at a point where, if clarity around frameworks, consideration of the models and appropriate public investment to de-risk were all lined up, we would have a potential comparative advantage, given the strength of the financial sector in the UK and Scotland, or are we playing catch-up?

The Convener: Perhaps we should give Joel Paterson a chance to consider that.

Olly Hughes: There is a really important factor here. Joel Paterson touched on patient capital, which is a global issue. UK capital is looking globally. We would love to see UK pension fund money coming into the UK, but at the moment, the scale and stability of some of the international markets are greater than in the UK markets, and, frustratingly, people are being diverted to other markets. It would be useful to look outwards and, in order to create some of that scale, to compare and align with other markets, such as Australia and New Zealand, which are very high integrity, and the US. Although we have high-integrity aspirations, we are so small scale that large-scale patient capital is looking elsewhere. That is not a very positive statement, but it is a true statement.

Joel Paterson: I am inclined to agree. Our competitive advantage would be in having high-integrity nature market outputs, be they carbon, biodiversity credits or whatever. As Olly Hughes pointed out, we are slightly disadvantaged by the scale that we can offer. We are a small island nation compared with the likes of the US or Brazil, with their rainforests and that kind of thing. We need to make sure that the outputs from our markets are of the highest integrity.

Ben Macpherson: That was all very interesting and helpful. If, following the meeting, you have further thoughts about local government—for example, the planning system—it would be interesting to hear them.

Understandably, we have focused, in the main, on the potential for natural capital finance to be invested and utilised in rural Scotland. However, there are also areas of private land in urban Scotland where the natural environment could be improved. Is any thinking being done about how such investment could be undertaken and what the opportunities are in that regard? That would make a real difference not just for the environment, but for the quality of life of the majority of our people, who live in urban settings.

Stuart Greenwood: It is not something that I have seen come into practice, and I think that the reason for that might be to do with the question of scale. In rural Scotland, it is much easier to get land of the size that is needed to make projects viable or to group them together. I can see it being a significant challenge to do that in urban Scotland. We would be talking about a number of disparate sites, potentially.

Joel Paterson: I agree that scale is definitely a consideration. However, I have seen examples south of the border where local authorities—urban ones in particular—have used their green spaces to tap into the biodiversity net gain markets. We do not have the same BNG system here in Scotland, but that is the kind of thing that could perhaps be looked at up here.

Ben Macpherson: That is interesting. If local authorities worked collaboratively with private landlords, there might be some scope and opportunity for that.

Jackie Dunbar (Aberdeen Donside) (SNP): I have a question for Mr Paterson. We have talked about landowners today, but I am aware that the term “landowners” can mean different things. There are landowners who own the ground, there are landowners who own the area below the ground—I am sorry; I do not know what the technical term for that is—and there are landowners who own both. How would that affect the trade in carbon credits? Who would get the benefit of those? Is it necessary to obtain permission from both sets of owners? Would investors be made aware of the fact that, although they might be dealing with one person, there could be someone else in the loop?

Joel Paterson: Stuart Greenwood might be better placed to address the legalities of the issue. With regard to engagement in some of the existing schemes, such as the peatland code and the woodland carbon code, it is generally the landowner who has the rights over the carbons in question. Tenants and others who have a licence to operate on the surface of the land can engage in the markets, but they need to do so with the consent and co-operation of the landowner.

When it comes to mineral rights that have been sold and how that situation would play out, I am not quite sure of the answer. I will defer to Stuart on that.

Jackie Dunbar: I am sorry—I asked the wrong person. I invite Mr Greenwood to answer my question.

The Convener: When you answer that, could you give us a bit of a steer on crofting? That is one of the issues that I do not understand. The common grazings might belong to a group of people, some of whom might no longer have anything to do with crofting. They might simply have a share in it. To whom do the carbon rights belong in that situation? Do they belong to the landowner or the common grazings committee? Perhaps you could widen out the question and give an answer on all of those aspects.

Stuart Greenwood: Okay. Those are two different topics, but I will give it a go.

Historically, when land was sold in Scotland—especially when it formed part of a larger estate—it was quite common for the estate to retain the mineral rights. That is what you are getting at. There would be someone who owned the minerals beneath the soil and someone who owned the surface. The reservation of minerals does not cover everything beneath the soil; it relates to something that is mineral—something of importance that is different from the normal subsoil.

Therefore, in undertaking a project on ground where there is a reservation, the situation will depend first on the terms of the reservation and secondly on what is there in the ground. It might not be impacted.

Jackie Dunbar: So, there would need to be a reservation in place, in the first instance.

Stuart Greenwood: Yes. It might not be impacted. It would depend on what you were doing. Generally speaking, if you simply wanted to plant trees, you could probably do that without worrying about a minerals reservation. If you intended to quarry stone to put in roads in order to plant trees, the position might be slightly different because you would be taking stone out of the ground to make the roads. The issue is one that needs to be considered in each instance, but it is not a barrier to taking forward a project for that kind of thing. The carbon rights would generally sit with the surface owner.

Crofting is, in effect, a form of tenancy, for lack of a better word. The landowner owns the property, and crofters have indefinite rights to make use of the property for agricultural purposes. Generally, there are two types of ground in crofting: inby land—which is set aside for a specific crofter to use and manage—and common grazings. A lot of crofters have their own inby land and have a share in common grazings. We can think of it as a circle—the crofters' inby land is on the outside and the common grazings, which crofters participate in, are in the middle.

In my experience, for a project to be taken forward, all the graziers, crofters and landowners need to agree. Normally, they require to agree on how the commercial benefits and the units will be divided between them.

The Convener: That sounds interesting.

Jackie Dunbar: I think that Mr Young and Mr Paterson want to come in.

Stephen Young: I will be brief. Forgive me if I am telling you something that you already know, but a carbon credit is generated by doing something in addition to what is already there, so it is not like what happens with minerals that sit under the soil and can be mined. To generate a carbon credit, you have to plant a tree or work to restore peatland, which comes with a cost. That is where the point about risk and reward comes in, because, in my mind, whoever does the work should get some of the reward.

In the tenanted and crofting sector, given the length of the agreements, things generally fall back on the landowner. If everything goes wrong and everyone else disappears for whatever reason, things fall back on the landowner, which is why they must have a voice in such transactions in one way or another.

Jackie Dunbar: Do you want to come in, Mr Paterson, or is it a case of "What he said"?

Joel Paterson: Basically, yes.

Jackie Dunbar: I am interested in your initial views on how the Land Reform (Scotland) Bill, which was recently introduced, will affect anything that we have discussed today.

Stuart Greenwood: I wonder whether there might have been a missed opportunity, because there might have been an opportunity through the bill to solve some of the challenges that we have talked about and to push the market forward.

Stephen Young: I agree that there has been a missed opportunity. The initial framing was about a net zero nation, but very little in the bill has any relevance to that, so there has been a missed opportunity for positivity.

There is also a risk of interference in markets. What impact will the bill have on future finance being provided, such as finance lent to landowners, if the terms of an existing loan can be changed because of the ability to liquidate an asset? There is a danger that the bill could create uncertainty and reduce income.

As I said, there has been a bit of a missed opportunity. It has not been completely missed yet, because the bill is in its early stages, but the bill could deliver more for the environment.

The Convener: Bob Doris has a quick question.

Bob Doris: This question almost takes us full circle back to my first line of questioning. I referred to investment in trading in carbon from 2018-19 to 2022-23. More than £3 million was invested in woodland in 2018-19, and the figure was £9.5 million in 2022-23. There were similar figures for peatland—investment rose from £19,000 to £1.6 million. Those are still relatively small figures, but we can see the increasing trend. I do not fully understand the numbers, but I can see the pattern in them.

During other lines of questioning, prior issues units—I apologise if I have got the terminology wrong—were mentioned. That got me thinking about the pipeline of future investment. Is that the best way to think about PIUs? We have estimates for each year, but lurking behind those is potential investment for future years. I want to be sure that that is what is meant by PIUs. Have I understood them properly? How can the committee see what potential future investment is lurking positively in the background, so that we can see the pipeline of potential investment based on incentives that might or might not be given and those kinds of things? Have I understood that correctly, Mr Paterson?

10:30

Joel Paterson: I will describe what PIUs are as briefly as I can. PIUs exist under the peatland and woodland carbon codes. There was a recognition that projects are long term—they are for a minimum of 30 years up to 100 years. Obviously, it takes a long time for woodlands to sequester carbon or for peatland emissions to reduce. You would need to have a lot of up-front capital to do the works, which would be followed by a very long trickle of carbon revenue, potentially. To get round that issue, the codes created a vehicle called pending issuance units. If a project, through its design and its meeting all the criteria on the code, is assessed as looking as though it will do what it says it will do over time, PIUs can be issued, which project developers can sell up front to investors as a promise to deliver. They can then use that money to fund the works or as another form of investment.

Bob Doris: I do not wish to make things more complicated than they have to be. I think that what I am hearing from you is that some of the yield will be in, for example, year 5, year 10, year 15 , year 20 and so on, and that those investing can take some of that yield now by selling PIUs on to others, which will allow them to do some of the work that must be done. This might be overly simplistic, but are PIUs a way of getting money out in the early years for gains that will come in future years? Have I got that bit right?

Joel Paterson: Yes.

Bob Doris: I know that that is a very simplistic way of looking at it. In that case, I have a different question. Sorry about that, convener.

I am sorry that the witnesses do not have in front of them the table that I am looking at. I suppose that we will soon have estimates for 2023-24 under the woodland and peatland carbon codes. However, no one is citing what future investments might look like. If we were talking about housing, for example, we would know that there was £X million-worth of investment in the background, how many units that might represent, what the yield might look like and so on. How can we track what future investment might look like? Is that quantified anywhere?

Joel Paterson: Not that I am aware of.

Bob Doris: Right. Maybe I have misunderstood things. I just wanted to make sure that there was not something that the committee should be looking at. We cannot track such investment. We cannot say that, in the next five years, we estimate that there will be investment of X, Y and Z based on what a future pipeline of investment might look like. Does that not exist in a public forum?

Joel Paterson: Not that I am aware of. A number of studies have been done on what future investment is needed in order to hit the climate and nature targets that we have set for ourselves. There is debate about that number and the scale of investment that is needed.

I am not aware of how much is being allocated by investors or funders for future investment.

Bob Doris: Okay. I appreciate your trying to answer that question as best you could, based on what I was asking you.

The Convener: I have a few quick-fire questions, because we are very nearly at the end of our session. The first question is for Olly Hughes. You said that Gresham House has managed land. It also owns land, does it not? If so, how much land does it own?

Olly Hughes: Gresham House does not own any land directly. Actually, that is not strictly true. We own a proportion—about 1 per cent—of some of the funds that we have invested in for the purposes of aligning our interests with investors, but we do not own any land directly under the name of Gresham House.

The Convener: Andy Wightman is wrong when he says that you are the third-biggest landowner in Scotland.

Olly Hughes: He is. We are the third-biggest land manager.

The Convener: Okay. If you could perhaps let us know how much land Gresham House owns, that would be useful.

I am a little concerned. We have talked about releasing money by selling things into the future. To me, the risk seems unquantifiable for 99 years and for 50 years. Farmers may well need those carbon credits to be able to continue to farm, because one thing is for sure: industries will force down to the primary producer their obligations to reach net zero. There is a huge risk.

Forestry and Land Scotland and NatureScot have no risk. Between them, they own 670,000 hectares of Scotland. Should they trade all their credits? Would that be your advice to them?

Stuart Greenwood: No. Ultimately, it is a commercial decision for any client, but we have tended to counsel that, where possible, if you need to raise some money, you should sell a proportion of your units, but do not by any means sell a significant proportion or all of them, because you may need them if something goes wrong, and you may want to hedge against the price going up in the future.

The Convener: They could sell credits on 200,000 hectares of land, which would be only a third of what is held. I find it difficult that land that is owned by the people of Scotland could be traded for carbon credits, given that the market is so risky, but credits on a third of that land—200,000 hectares—would probably allow those organisations to fund all the Government's tree-planting targets. Would that be a good deal?

Stuart Greenwood: That is a commercial decision for NatureScot.

The Convener: Would you advise it to do that, Joel Paterson, if you were trading for it?

Joel Paterson: I would probably have to give the same answer as Stuart Greenwood.

The Convener: Olly is going to jump in and tell us that he will buy it all.

Olly Hughes: We have to be careful, in that there is no carbon value on that existing forest land. Its carbon is already accounted for within the national account. Carbon value is generated only from afforestation and new planting in additionality. Forestry and Land Scotland will have opportunities to generate carbon through peatland and afforestation but, at the moment, I am not aware of its doing any fundamental afforestation under its own name.

The Convener: Yes, but it owns land such as Cairn Gorm mountain and the surrounding areas, which does not necessarily have trees.

On that, if PIUs are being traded in the future, what is a PIU worth? Is it 50p? Is it 21 quid?

Joel Paterson: Based on the market evidence so far—bear in mind that, as we have already said, that is fairly limited, compared with the number of PIUs that are in existence—today's price is around £25 per unit.

The Convener: How many PIUs are there, per hectare?

Joel Paterson: That is a difficult question to answer, particularly for peatland, because it will depend on how degraded the peatland is and its rate of emissions. For forestry, it is slightly easier because, if you know how many trees you have within a given hectare, what species they are and how quickly they grow, you can calculate that. I do not have the number off the top of my head.

The Convener: I am just trying to get a handle on it. Is it one, two or three PIUs? Is it somewhere between one and 10, or is it somewhere between 10 and 100? I do not know.

Joel Paterson: It will be between one and 10 per hectare.

The Convener: Okay. I have a final question. Living in the Highlands, I have heard huge stories about remote landlords being what we want to get rid of. I suggest that the carbon market has probably made some of the landlords more remote. For example, BrewDog owns Kinrara; abrdn—Standard Life—owns Far Ralia; and Glen Dye is owned by Aviva and Par Equity. How do I contact the people who are investing in the natural capital of Scotland? Where can I ring abrdn to find out who is looking after Far Ralia? That will impact on local communities. Are those landlords not remote? That is a rhetorical question; who would like to answer it?

Stephen Young: I cannot give you the numbers to ring, but a lot of those landlords will have estate offices, as other estates have, and they will have estate managers, as any owner has. However, there is the potential for them to be more remote if they do not physically live there.

The Convener: I do not know about that. At Kinrara, for example, there were five employees; now there are zero. I am just trying to work out what the effects will be. Does anyone want to say a positive thing—for example, that the carbon market will make things more local and will bring the land back to local people?

Stuart Greenwood: The examples that you have given are the few in the market in which remote buyers have purchased the land outright, which is the minority of the activity. I distinguish that activity from entering into projects and doing deals with existing landlords on the ground.

The Convener: I am not sure whether the local communities have much input to the planting of Kinrara, or whether the aspirations of the owner to plant bits of it, which are peat and cannot be planted, were ever achievable.

We will leave it there. This subject is very interesting, and it is apposite that we look at it now, given that the Land Reform (Scotland) Bill is before the Parliament.

I thank you all for coming. Although I do not want to single anyone out, I was appreciative, Olly Hughes, that you decided to join at the last minute. I understand how that worked out and I am grateful, because you added to the excellent evidence that we have heard this morning.

10:41

Meeting suspended.

10:48

On resuming—

The Convener: Welcome back to the meeting and our second panel of witnesses on natural capital.

I welcome Dr Naomi Beingessner—did I say that right?

Dr Naomi Beingessner (The James Hutton Institute): Yes.

The Convener: Thank goodness for that. Dr Beingessner is a social researcher in transformative land management at the James Hutton Institute. I also welcome Dr Lydia Cole, lecturer, University of St Andrews; Dr Josh Doble, policy manager, Community Land Scotland; and Jo Pike, deputy chair, Scottish Forum on Natural Capital and chief executive, Scottish Wildlife Trust. Thank you all for joining us.

We have quite a lot of questions and, as I have said previously, I would encourage everyone to give succinct answers. The first question will be from Jackie Dunbar.

Jackie Dunbar: Good morning, panel. To what extent do we need private investment in natural capital in Scotland? That is an open question to start with.

The Convener: I should say to the witnesses that the problem is that, if you all look away, I will have to nominate somebody. If you could indicate whether you would like to come in, I will try to gauge—[*Interruption*.] Oh my God, every hand has gone up. Now, this is not good.

Lydia Cole, I think that you were first, and then I will bring in Josh Doble.

Dr Lydia Cole (University of St Andrews): Thank you for the question and for the invitation to give evidence.

As far as Jackie Dunbar's question is concerned, I think we would need to do the numbers. I am here to speak on behalf of peatlands, essentially, and the question is whether the finance gap is as big as we claim it is. Since the gap was identified, there have been some changes that might bring it down by a lot. For example, NatureScot is now financing the upskilling of workers to carry out peatland restoration, which is actually quite a skilled activity. That will reduce the cost. I do not know how much it costs to ensure that people have the skills, but it will mean that more people are able to work in different places and that benefits will be brought to local communities, if the people in those communities can be upskilled. Moreover, the more equipment that we have, the more that can be shared.

We do not necessarily need to buy land for peatland restoration—we can look at peatlands in crofting communities, for example. I just think that we need to reassess whether the finance gap is as big as has been claimed.

Jackie Dunbar: Do you think that you have good evidence on what the finance gap actually is?

Dr Cole: If we did have evidence, I imagine that it would be outdated. I have not seen the evidence, so perhaps I should leave it there.

Dr Josh Doble (Community Land Scotland): Thank you for the invitation to speak. I am from Community Land Scotland, the representative membership organisation for community landowners in Scotland.

Picking up on Lydia Cole's final point, I would say that the evidence that we have seen for what the finance gap might be is not strong. We have not seen any strong, independently verifiable evidence, and the Scottish Government has moved away from the figure that was discredited last year and is now talking about an ambition for how much it would like to see, which is £12.5 billion. Our view, I suppose, is that that is unrealistic; it represents a scaling-up of investment by many thousand per cent, and we just do not think that it is achievable.

On the wider question whether there is a place for private finance, there is absolutely a place for it in meeting nature targets, as there is a place for it in most sectors of society. The really important thing to think about is the relationship between public money and private finance, whether private finance is meeting a wider range of policy objectives and how it is actually being used.

Therefore, I hope that we can talk a bit about the proposed models and how public money is being used to de-risk private finance. The issue was touched on a little bit in the previous session, but we need to dig into it a bit more, because the models that have been proposed are not talking about reducing public expenditure. Instead, they are seeking to keep public expenditure at the same level—or possibly to open us up to even bigger public expenditure, all for the purpose of de-risking private finance.

We are just not clear what other issues in the sector need addressing. After all, it is not that finance is the problem and the reason for our not meeting nature targets; a host of other issues needs to be dug into, and as much effort needs to be put into them as into thinking about how to leverage private finance.

Jackie Dunbar: I am sure that my colleagues will dig down into that.

Jo, would you like to add anything?

Jo Pike (Scottish Wildlife Trust): This is a really important question, and I would suggest that we concentrate less on the precise numbers and more on the broad scale of the challenge. It has been recognised in Scotland that the nature and climate crises are inextricably linked. We know that we need to take action urgently, and we know that we need to accelerate and scale up that action. Our view not just in the Scottish Wildlife Trust but, I think it is fair to say, in the Scottish Forum on Natural Capital and across the various collaborative hubs, is that everyone needs to be part of the solution, and that will include the private sector.

I would also add that people have different definitions of the word "investment", and I would advocate our using as broad as possible a definition if we are to pick up on what Josh Doble was referring to when he talked about what such investment is achieving. It does not always have to be traditional investment that makes private returns to traditional private investors. I just think that the word itself needs to be used as broadly as possible.

The Convener: Mark, you have some questions.

Mark Ruskell: Do you think that the current projects that are under way and the standards that are being applied will deliver long-term climate mitigation?

Secondly, with the balance of different land use that we have, we could focus entirely on climate, on food production or on a whole range of other uses. Is the balance right going forward, or is there too much of a tilt towards climate, or too little?

Jo Pike: I am happy to say something briefly. Strategic land use planning and some really good-quality opportunity mapping would help us a lot here, because we need to deliver multiple benefits with climate mitigation, climate adaptation and addressing biodiversity loss in its own right. If we can do really good-quality opportunity mapping across Scotland, that will help to make the best use of public and private investment.

Dr Doble: I agree with that, and I will also say that it depends which projects we are talking about. Some of the projects that were discussed at the end of the previous session are examples of how this is not working. You could have a project that is chiefly focused on delivering climate and biodiversity goals but that can also achieve a number of other policy goals, such as just transition to net zero, land reform and community wealth building. Those are the kind of projects that we want to see happening. From our point of view, they are happening in areas where communities either own the land or have a considerable say over what is happening. In those cases, often, the investment, wherever it is coming from, is generating wealth that is circulating locally, because local people sit on governance boards and have a say over what is happening, so there is more control.

A lot of the investment that has been spoken about is foreign direct investment and external investment, which will be focused on maybe achieving some climate and biodiversity goals but ultimately is interested in extracting wealth.

Mark Ruskell: I think that we will come back to those points around wider social, economic and community benefit, but in relation to climate, do you see the projects that were mentioned at the end of the earlier session delivering long-term reductions in carbon emissions, locking up carbon emissions and mitigating climate change?

Dr Doble: No, I do not. If those projects are based on the investment targets or financial motivations of a single landowner, be that an individual or a corporate interest, they are interested in the profit from that land; they are not interested in the long-term viability and resilience of that project. That is not their primary concern.

Dr Cole: I will talk about peatlands as I am a peatland conservation ecologist. I have been working on peatlands for a long time across the world but most recently in Lewis. I have been looking at the peatland restoration there—at whether is it working, where is it working and where it is not. In the crofting communities, there are some peatland restoration successes, mostly via peatland action funding, which is public funding. We interviewed various people, including a peatland action officer in Lewis, who said that the peatland action projects are being slowed down because people are not sure whether there is the potential for private funding to come in through the peatland code mechanism. On the operational side, peatland restoration projects are not happening because people are unsure about the potential of private investment and what that could mean for them.

We have talked a lot about de-risking things, and one of the ways to do that is through the peatland code, which is a structured mechanism for quantifying the carbon reductions from restoring peatlands. That has to simplify the process of restoration. There are four condition categories that a peatland can be categorised into, which is reductionist, but I appreciate that we need that. The most healthy peatland condition is near natural. If we get to that, we have a peatland that could be healthy, resilient and cope with a degree of climate change in the future that could dry out that ecosystem and cause burning. If we get to the point where the peatland is near natural, we could start to sequester carbon. Once we have got to net zero, we will be trying to stay at net zero through absorbing carbon from the atmosphere with healthy peatlands. However, the incentives to get to the point of having near-natural peatland are not really there. At the moment, you get a lot of money via this structure to go from an eroding peatland that emits lots of carbon to a drained peatland that emits a bit less carbon; however, if it is drained, it will still emit carbon, just less of it.

11:00

If we are thinking about the long-term mitigation of climate change, the structures that we have at the moment to allow money to be channelled into peatland restoration are not really incentivising movement towards the point where we will have a healthy ecosystem that will then sequester carbon.

Mark Ruskell: We need to get to that end point.

Dr Cole: And beyond, and then maintain that position.

Mark Ruskell: That is clear. Naomi Beingessner, do you want to come in?

Dr Beingessner: I think I am here because of a specific piece of research, which did not really look at environmental impacts. To step back a bit and build on what Josh Doble said, when we looked at private investors or investor owners we found that it was absolutely done at their whim. In general, such investment could deliver long-term mitigation, but it does not have to.

Monica Lennon: Good morning, panel. Are current natural capital finance models, in which the financing metric is generally based on carbon, delivering integrated environmental benefits such as biodiversity or natural management of flood risks? How could that be improved?

Jo Pike: Just so that I understand the question, are you asking how the current metrics could be improved?

Monica Lennon: Yes. It is my understanding that the finance metric in the current natural capital finance model is generally based on carbon. We want to see the delivery of integrated benefits, including things such as biodiversity or natural flood risk management. Does that model take the right approach, or could there be an improvement?

Jo Pike: It is really important not to look at things purely through a carbon lens, because that can create unintended consequences. A lot of additional codes are in development and it is sometimes hard to keep up. I think that integrated benefits will be important if those codes become established, because they will provide a level playing field with transparency, accountability and clarity. For example, there is work on a community code that takes in biodiversity but also takes account of social aspects. We definitely need to look beyond carbon.

Monica Lennon: That is helpful. Josh Doble, do you want to add something about how a community code would work in practice?

Dr Doble: That is a good question. I have no idea how that would work, but I agree with what Jo Pike said. There are already some examples of organisations and landowners bundling credits. They are selling carbon credits through the established mechanisms but are increasing the sale price because they say that they are also delivering biodiversity and community benefits. In the example that I am thinking of, they are actually doing those things, which is why they can charge a higher price.

That has been called “charismatic carbon”. It achieves some of the wider benefits that Jo Pike spoke about, doing that through the carbon model, but with ethical frameworks and standards to ensure that the people who buy those credits align with the principles of the organisation. It is mostly charities that are doing that. It is more work, but they get more gain. It relies on having a proper relationship with the local community, and the benefits flow both ways. There are some established models, and we would encourage the development of those.

Monica Lennon: I see Naomi Beingessner taking notes, and Lydia Cole has her hand up, so I will come to both of them

Dr Beingessner: I am taking notes just for my own purposes.

Dr Cole: To go back to the point about codes, I do not know much about the new codes that are being developed, but every code requires someone to develop it in order to create a code that is universal enough to fit different systems. There has to be someone—who is probably paid—to verify the quality of the community environment against that code. All of that adds expense.

We need to work back and think about how these landscapes are being used. Do we need these extra codes or can we, for example, change our taxation system so that there is more money for agriculture subsidies that put money into how landscapes are currently used and lead to improvement in a holistic way of those landscapes, so that the effects are seen and farmers have the incentive to continue using the land in that way? If farmers see the benefits of reduced flooding from restoring their peatlands, there will be much more of a motivation for activities such as blocking drains and improving the biodiversity value of peatlands. That will happen almost naturally, or perhaps with some incentive to start with.

I fear that, with the development of more and more codes, there will be fads—it will work for a bit, but then we will drop it because it is not working everywhere, then we will develop a new one, and we will lose money every time that we develop a new code. There is never one size that fits all. That is a very academic answer, but there is not, which is why things keep failing. There will be some repetition, but we need to understand what is going on on the ground in each different location. Is farming happening?

For example, in Lewis, there is a lot of agriculture on peatlands, and those peatlands are generally in a relatively good state—not near natural, but maybe modified. The restoration work that needs to happen is relatively limited in some of those areas, and farmers know how to manage those peatlands. In many cases, they become better for grazing, which incentivises that kind of land management going forward.

Do we need extra codes in those situations? I do not know. I will leave it there, otherwise I will just keep going.

Monica Lennon: That is all very helpful. More generally, I am keen to understand how a just transition for rural communities can be ensured. You have talked about more traditional farming. I am thinking about gamekeeping industries—land use change could fundamentally change that profession. How do we get a just transition for rural communities?

This is, again, perhaps not a question for all of you. Perhaps Dr Doble could come in and then perhaps Dr Beingessner. Should a proportion of green land investment profits be shared with communities in the same way as we see community benefit payments arising from wind farm developments? I know that that is not a perfect system—people have their views on that—but can I get your take on that?

I am looking at Naomi, in case she wants to come in.

Dr Beingessner: I am sure that Josh will expand on this. I will speak to the research that we did in six case study communities where there had been private green land investment ownership. There were new owners but also a couple that had had the land for a while. Some communities had wind farms and more or less liked the model of the renewable developers in the area in relation to community benefits, but there was something that was brought up—Oh, gosh! Sorry, but these are my emotional support notes. I should have written more notes on the question so that I did not forget it halfway through answering it.

Monica Lennon: Take your time. We can always come back to you in a second if you want.

Dr Beingessner: Yes. Josh, why not go first?

Monica Lennon: Josh is smiling, so we will come to Josh and then come back to you, Naomi.

Dr Doble: In theory, yes, there should be a benefit-sharing model akin to the renewables model, but there is a big difference between the renewable energy industry and the nascent, immature carbon markets that we are talking about. The amount of profits that will be generated are very different, and, in the conversations we have had with investors, they have made it very clear that community benefits are not really on the table, because they do not see themselves making the kind of returns that they need to. The market is immature, how it is going to develop is unclear and there is no guarantee that the carbon price is going to increase in the future, so there is a lot of nervousness, which I think was clear from the first evidence session this morning.

Because of that, the discussion about what community benefit models might exist is very limited. We are working with the Scottish Land Commission at the moment to develop some of those models, and we are thinking about how they could become statutory or whether there could be a means of enforcing them.

As was discussed earlier, there could be a benefit to thinking about the non-financial benefits from this. If a land purchase is a part of one of those projects, as the gentleman from Gresham House—I have forgotten his name—made clear, buying the land is important, because that is where the asset value increases when there is a reliable investment.

That means that, when land is purchased, a portion of it is given to the community for its own use, such as housing or whatever the local need may be. Other models could be developed, but it is a very immature, unstable and unknown market, so there is not much scope for community benefit at the moment, because of the amount of money that needs to be invested.

The Convener: Interestingly, you said that there is an opportunity for benefit, but benefit usually comes with risk. There is zero risk with a wind farm; it will go up and the turbines will turn, so we know what will happen. There is a huge risk with natural capital, because we do not know what the obligations are. Should there be risk sharing as well as benefit sharing? You can give a yes or no answer to that.

Dr Doble: When there is significant land use change where a community is living—the land that it is living on and adjacent to—there needs to be some kind of benefit or understanding that those living in the community are the principal people who are dealing with the land use change. As was mentioned in the first part of this session, granting access is not a benefit, because we have very well-established access rights. Yes, there is risk, but hopefully we will go on to talk about the fact that actually the public purse is going to take that risk, so the community should get some of the benefit from the models that are proposed in the Scottish Government's research.

The Convener: I thought that the private purse was taking the risk.

Dr Doble: No.

The Convener: Is Gresham House not investing in it and buying the PIUs?

Dr Doble: If we are talking about the investment models that are proposed for scaling up the investment, that means using public finance and remodelling grant mechanisms to de-risk private finance. I was not talking about what Gresham House may be doing, although it is also using public money through subsidies.

Dr Beingessner: To expand on the topic of non-financial benefits, there is potential for models with community shares if the Government de-risks, which I am advocating for. I agree with Josh Doble that it is already de-risking, and ultimately the landowner has the land, which is only going to appreciate in the long-term—bubbles aside. The community does bear the risk of loss of employment and loss of access, as we have seen in some cases. There were communities that talked about loss of farms, tenant farmers and opportunities for young farmers coming in because of changing land use and all that sort of thing.

As far as non-financial benefits are concerned, one thing that we did not see, and which people wanted, was involvement in decision making. If the changes are going to come in, we need some input up front. There are a lot of well-intentioned investor-owners out there who thought that they were doing community engagement, but they were not really. They may have been communicating information, but either they were not doing it frequently or they did it only once, at the start.

Nobody wants there to be a million answers to that question, but, at some point, it has to come down to what is best in the local context.

Mark Ruskell: I will come back to a theme that I asked the first panel about, which is barriers to participation by tenant farmers, crofters and community organisations. Can I get your brief reflections on that subject?

Jo Pike: Picking up on the answers that the other panellists gave, one of the barriers to providing meaningful opportunities for communities to shape future decisions is that communities need capacity. In the Scottish biodiversity strategy, for example, there is reference to the six aspirational landscape-scale nature restoration areas, but it is going to be more difficult for certain communities. For example, it will be difficult for those in the north-west of Scotland, where the Scottish Wildlife Trust is involved in the Coigach and Assynt living landscape. We initiated that, but obviously it is very much a community-led initiative.

Then there is the community-led Northwest 2045 initiative, which covers a much broader area—the same area as the regional land use partnership. So many exploratory conversations are taking place, which is required, but the problem is that those exploratory, speculative conversations do not necessarily come with a promise of benefits to the local community, and only a certain number of people are available to take part in all of those deliberative conversations. Therefore, there needs to be more focus on providing sufficient capacity to enable communities to engage in some of those conversations.

11:15

Mark Ruskell: Josh Doble, do you see a mismatch between the capacity of common grazing committees and the abilities of communities to organise, compared to larger landowners, which might include environmental non-governmental organisations in some cases?

Dr Doble: Yes, potentially. There is a difference in access to resources, time and capacity. Some of the crofting communities are being approached by consultancies that say that they can do all of the work for them, that they are sitting on pots of gold under the peatland and that kind of thing. Those organisations are stepping forward to offer some capacity, obviously for a fee, but other barriers are in the way. Capacity is definitely an issue, but other barriers apply to community landowners as well as to the market in general, and I think we have touched on that a bit in both sessions.

There are concerns about the market's immaturity and volatility, and about reputation and greenwashing. The lack of clarity for crofting and tenant farmers is a big issue. Permanence is also a real issue for communities. We have seen communities that have looked at taking part in the woodland carbon code, but they are not comfortable with being tied into a 100-year contract. They do not want their grandchildren to be tied into a contract when they might have another idea of what they want to do with that land. They have ended up doing the work that needs to be done, but they are just not taking part in the woodland carbon code. They make use of the generous grant subsidy to do the ecological work that needs to be done, but they are not thinking about the profit motive.

The convener raised a point about insetting needs, and our members are also thinking about that. There is going to be a point at which they will have to inset their own emissions from whatever their activities are.

There are some practical concerns about the availability of saplings and the availability of skilled workers to work on peatland restoration. Then there is the fundamental issue of the price of land, which is a real barrier to communities taking part in ecological restoration work, let alone getting involved in some of the market mechanisms.

Mark Ruskell: It is great if you own land now, but maybe in five years it will be beyond what communities can afford.

Dr Doble: Yes.

Mark Ruskell: Lydia Cole, do you want to come in?

Dr Cole: I have one quick point to add. In Lewis, people said that they are afraid that the commitment could mean losing access to their peatlands, and there are still people there who are cutting peat because energy prices are so high for them in that geography. If energy prices were lower, people would not need to be asked to stop cutting peat. They would stop doing it because it is a hassle, it costs a certain amount and people are getting older in general. Another barrier to participation is therefore that people are afraid of losing access to that specific free energy source.

Mark Ruskell: Thanks. Naomi Beingessner?

Dr Beingessner: I think that covers it.

Mark Ruskell: Okay. I asked the first panel about the interim principles for responsible investment in natural capital. What are your thoughts on that as a framework? You will be aware that we talked in the earlier session about whether that could or should be codified in legislation in some way. It would be useful to have your reflections on that.

Jo Pike: Josh Doble and I recently joined and sit on a Scottish Government advisory group on the nature markets framework, which aspires to take those interim principles and turn them into more of a framework.

In response to the question about legislation, anything that has some teeth is helpful, but the framework that will be designed as part of this process will probably not have legislative teeth, as it were. I think that the timetable means that the framework will be published in September. There is a point of differentiation for Scotland if we really can do this high-integrity values-led piece well, and it will need all the tools in the box to do that, but there will not be one single solution that will be a panacea to achieve that.

Mark Ruskell: This is an obvious question, but why does the framework need teeth right now? Is it because people are not sticking to it?

Jo Pike: As the market matures and grows, there will be a greater risk of non-compliance. This panel has not talked very much about the importance of monitoring, reporting and verification, but trust is such an important part of the whole discussion, not just for organisations such as the Scottish Wildlife Trust in the environment sector, but for investors who are worried about their public relations and that kind of thing. I think therefore that there will need to be enforcement and regulation. It definitely needs a holistic approach.

Dr Doble: I agree with what Jo Pike has said. There needs to be some regulatory function, or teeth, to the market framework that is being developed to build on the interim principles. My understanding is that those principles are transitioning into the market framework.

A lot of the talk in this area is based on the idea of investment being high integrity and values led, but those terms have not yet been defined. What does “high integrity and values led” mean in Scotland? That definition needs to be nailed down, and it can then be the standard to which projects are held.

Mark Ruskell: Who would regulate that? Would it be NatureScot?

Dr Doble: I am spitballing here, but there are public bodies that deal with nature and that deal with land management, so I suggest that it may well be within their remit.

There is a bit of a tension within the interim principles and, potentially, within the market framework. The wider policy commitments within Scotland are acknowledged, and there is talk of leveraging in billions of pounds of private capital, but how those two things fit together is very challenging. That will need to be worked through, as there is a concern that the wider policy commitments will be undercut by private capital.

Dr Beingessner: To pick up on what Jo Pike said, I agree that the framework needs to have teeth, and there is a public impression of greenwashing. Kinrara was mentioned previously. If you go into the more niche segments of the internet you will find a pretty big lack of trust that landowners are doing what they say or that anyone is checking on them. Some participants in our research claimed that, while a landowner may say that they are doing one thing, they are in fact doing another environmental thing that does not support their claim. Those things might not necessarily be related, but such instances call the good will into question. Without some kind of creditable mechanism for ensuring that what is said to be happening is happening, good will and PR are the only things that people have to rely on, and they are rightly sceptical when it comes to big changes.

Dr Cole: When I think about high integrity, I think about the ecological impacts and whether we are doing what we want to be doing, which is reaching net zero. The high integrity lies in getting the market to work between people, but we need to keep checking what is happening on the ground and whether we are actually sequestering carbon or reducing emissions. It has recently been shown in relation to some of the international carbon offsetting schemes that there is not much integrity on the ground. If reaching net zero is what we are creating these structures for, we need to watch what is going on carefully.

Mark Ruskell: Are you saying that that is absent from the interim principles, or do things just need to be tightened up?

Dr Cole: I have not read the interim principles, so I cannot comment, but in every other situation that I know of, things need to be tightened up.

Mark Ruskell: So, that is one to watch.

The Convener: I think you have a question, Monica.

Monica Lennon: Is there time? I had put my notes aside, as I thought we were running out of time.

I did have a couple of final questions, if there is time. One is on the Scottish Government's wish for growth in peatland and woodland carbon markets. We know that NatureScot is piloting approaches with the private sector, and we have heard about the Scottish National Investment Bank investing in commercial forestry, seeking to generate carbon credits. What are your views on the role of the public sector in supporting the growth of natural capital finance? You have given us a flavour of that already. Is it too early to say whether the public are getting value for money? We have heard some concerns about the approach taken with ScotWind. Some people feel that Scotland's sea bed was sold off too cheaply—that view is out there. Should people be nervous about what is happening with land and about the current approaches?

I see Josh Doble nodding, so I will go to him first.

Dr Doble: There is potential for the sort of massive missed opportunity that happened with ScotWind. That was an example of the development of renewable energy. In the case of carbon sequestration projects, how much of the wealth that is being generated—in the broadest sense—is actually being kept in Scotland, let alone in local communities?

If we are saying, as a public sector and as a nation, that we are handing the incentive and imperative to the private sector, there has to be some very tight regulation if the wealth that is being generated is to be kept within Scotland to achieve public good more widely. We need to consider whether it is going to work in the public interest, and we have concerns that it will not. There seems to be a fixation on the amount of money that is needed in order to get into the sector, rather than thinking about what is going to be done from an ecological perspective or a wider perspective. We would say that it is for the public sector to take the lead on this. There is a place for private finance, but it needs to be led by the public sector, not least because, as we all agree, we are facing an existential crisis. The public sector has a duty to be leading the charge, with support from private finance. It should not hand the incentive to private finance to take the lead and it should not say, "You know what to do; you do it".

Monica Lennon: I just wonder whether we are getting the balance right—

The Convener: We are very tight for time. Please go to your question, which I think was about—

Monica Lennon: I was going to ask about the Land Reform (Scotland) Bill.

The Convener: That is what I am after. I then need to bring in the deputy convener.

Monica Lennon: I was surprised that I was allowed to ask any questions, given the time. I will move on to my question.

The Land Reform (Scotland) Bill has been introduced only recently. Do you have any initial views or thoughts on the relevance of the bill to our discussion? Will any of the proposals in the bill tackle the issues that have been raised, such as land markets, transparency, community engagement or land use changes? Just say a couple of words, if you could.

The Convener: This is not an excuse to discuss the whole bill. You can say one thing each if you want to. I am sorry, but we are so tight for time.

Jo Pike: In order for any change to be sustainable, it is absolutely critical that it is fair and considers the needs of communities and so on. The equitable sharing of risks and benefits is fundamental to how we think about changing land ownership.

Dr Doble: Just cut me off, convener, if I go on too long.

The Convener: I will.

Dr Doble: There are some potentially interesting proposals in the bill that could be useful for what we are discussing., such as the lotting of large land holdings. If the threshold for that is reduced to 500 hectares, that would mean that a more significant number of transactions could be done and communities may be in a position to buy portions of existing large land holdings so that they can do some of that work when they get access to land. Usually, the first thing that they want to do is ecological restoration of one form or another. If the threshold is brought down from 3,000 hectares to something that is more akin to 500 hectares and the land management plans have teeth, you could start to achieve some of the climate and biodiversity goals through those plans. They need to be robust, though. I have more to say, but we will talk about it later.

Dr Cole: I saw no reference to carbon in the land reform bill. Should it be there? We need more guidance on who owns carbon. That was brought up by the last panel—it is not a mineral and it is not on the surface. At the moment, it is dealt with by contractual law, but I think that there needs to be guidance to go with any changes.

Monica Lennon: Do you think there should be a reference to carbon in the bill?

Dr Cole: I do not know, but communities do not know how to deal with it. It seems as though it is falling between the gaps at the moment.

Dr Beingessner: I am looking forward to the model land management tenancy. I have already been asked, "What is this? Is it going to do something?" I do not know; I hope so.

The Convener: I will go to the deputy convener because he needs to get in his question.

Ben Macpherson: Thank you. Josh Doble, you talked about the need for considerations about natural capital finance to be public sector led, but I appreciate the words of caution that you emphasised. Do you want to put anything else to our committee about the need for the approach to be public-sector led but not public-sector subsidised? I think that that is important.

Dr Doble: The point about public sector subsidies is one thing, but if public money is de-risking private investment, that is another kettle of fish, of which I think we need to be very wary. There are other ways that the public sector can take the lead. In the last panel, there was talk about Forestry and Land Scotland using its land in different ways or thinking about how to use its land. There is a lot of land that is under public ownership that could be used to do some of this work.

There is an opportunity for thinking about regional land management plans empowering local authorities to have more powers to shape nature restoration in their areas. I know that there are proposals for the introduction of a carbon emissions land tax. Other kinds of land taxation could be looked at.

A whole host of regulatory mechanisms could be used. There is also a role for the Scottish National Investment Bank and potentially new models of using public pension funds. There is a whole host of financial levers that would use public money and would be public sector led that simply have not been explored. It is not for us as an organisation to say what all of those should be or to bottom out how they are supposed to work, but a whole load of policy levers have simply not been considered. There is a myopic fixation on leveraging in private finance rather than thinking about all of those other things that could be done. We ask the Government to think about that.

The Convener: Because I mismanaged the time so badly, I will not get to ask my questions. They would have been about the size of the problem and the large scale of the projects that are needed to try to achieve what we want to achieve and how we can actually achieve it. I still have not been convinced that I understand how we can mitigate the risks to people who derive a living from the land from trading carbon credits. That remains a huge concern to me. However, I will leave it there. I suspect that we will come back to the subject when we consider land reform at some stage.

I thank all of you for the evidence that you have given this morning. I am sorry that time was tight. I will push straight on. Please extricate yourself quietly from the meeting so that I can move on to the next agenda item.

Subordinate Legislation

Green Gas Support Scheme Regulations 2021 (SI 2021/1335)

11:31

The Convener: The next item of business is consideration of a type 1 consent notification relating to a proposed United Kingdom statutory instrument to amend the Green Gas Support Scheme Regulations 2021.

On 1 March, the Minister for Zero Carbon Buildings, Active Travel and Tenants' Rights notified the committee of the proposed UK SI, whereby the UK Government is seeking the Scottish Government's consent to legislate in an area of devolved competence. The committee's role is to decide whether it agrees with the Scottish Government's proposal to consent to the UK Government making the regulations within devolved competence and in the manner that the UK Government has indicated to the Scottish Government.

If members are content for consent to be given, the committee will write to the Scottish Government accordingly. In writing to the Scottish Government, we have the option to pose questions or to ask to be kept up to date on relevant developments.

If the committee is not content with the proposal, we may make one of the two recommendations that are outlined in the clerk's note, which I do not propose to go through at the moment. Do members have any views on the proposal, or are members content with it?

As no one has indicated that they have any views, I will move to the substantive question. Is the committee content that the provision set out in the notification should be made in the proposed UK statutory instrument?

Members *indicated agreement.*

The Convener: We will write to the Scottish Government to notify it of that.

That concludes our meeting in public. We will now go into private session.

11:33

Meeting continued in private until 12:05.

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