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COMMUNITY\*  
LAND SCOTLAND

**Green finance, land reform and a just transition to net zero**

**A Discussion Paper**

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**Land and the Common Good**  
**A discussion paper series on land reform in Scotland**

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# Land and the Common Good

## A discussion paper series on land reform in Scotland

This series is intended to stimulate informed discussion and debate on land reform in Scotland through the publication of independent papers on a wide range of issues from different perspectives. Its overarching aim is to explore the multi-faceted relationship between land ownership and land use in pursuit of the common good. The views expressed in the papers are those of the authors alone and do not necessarily reflect the views of Community Land Scotland.

## About the Author

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## Acknowledgements

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## Executive Summary

Tackling the twin emergencies of climate change and biodiversity loss is an existential challenge, requiring concerted and coordinated action across all sectors of the economy. Scotland's land has a key role to play, both in protecting existing stores of carbon and sequestering more. However, land is currently a significant source of emissions: rapid and extensive changes in land use are necessary to deliver any meaningful contribution to net zero.

The Scottish Government has made legally binding commitments to achieve net zero, and to ensure a just transition, providing a fairer distribution of benefits. Likewise, the Government has commendable policy commitments to social justice, land reform and community wealth building. However, delivery of these multiple objectives is problematic given Scotland's largely unregulated land market and uniquely concentrated pattern of rural land ownership. This disposition is buttressed by a suite of grants, subsidies and tax exemptions which drive up land prices and build and protect private wealth. With access to land denied to all but a few, the distribution of benefits, often from windfall gains, is equally restricted.

To date, interventions to tackle climate change have focussed on providing additional incentives via green grants and developing mechanisms such as carbon credits to facilitate private investment. However, promoting increased flows of capital to land without reforming existing fiscal mechanisms only adds fuel to an overheated land market and will inevitably widen existing inequalities. These new incentives are attracting new actors, some motivated more by the promise of return on investment than the delivery of green objectives and with little knowledge of or concern for the local context of the land they acquire.

The Scottish Government has rightly acknowledged the importance of private sector involvement, but thus far has largely failed to utilise the very substantial levers already at its disposal, or recognise that their current deployment often inhibits, rather than supports, the achievement of its environmental objectives. Past experience suggests that unregulated markets are unlikely to effectively deliver even the primary objective of tackling the climate and biodiversity crises: a radical change of mind-set is needed to ensure that our land does contribute to its full potential, and that the transition to net zero builds community wealth and resilience.

This paper analyses the main green finance mechanisms, discusses the impact of fiscal measures on the land market and identifies a suite of interventions by which the Scottish Government can take a more proactive role, driving the land use changes necessary to achieve net zero whilst contributing effectively to social justice and community wealth building. These interventions include:

- Review and regulation of green finance mechanisms to ensure that they contribute effectively to net zero;
- Reform of subsidies and tax exemptions which distort the land market and perpetuate current unsustainable land use, ensuring that any future fiscal measures are fully aligned to delivering the full range of Government objectives;
- Regulation of large-scale landownership and land use through a revised Land Rights and Responsibilities Statement, backed by Public Interest Tests;
- Provision of community benefit funds to help ensure a broader distribution of benefits from the transition to net zero.

# Green finance, land reform and a just transition to net zero

## 1. Introduction

Appearances can be deceptive. Scotland's renowned natural beauty is rather less natural than many casual observers imagine. Instead, the grand, depopulated rural vistas are the product of a long process of environmental devastation: the loss of key species and the continued persecution of others to maintain deer and grouse populations at unsustainable levels, widespread deforestation only partially and not always appropriately addressed, and decades of unsustainable land management practices which have left 80% of the nation's peatlands degraded.<sup>1</sup>

They are also, in part, the consequence of a long social and political history of exploitation and expropriation which has left Scotland with the most concentrated pattern of land ownership in Europe<sup>2</sup>. This disposition did not arise by accident, nor is it, as Mrs Alexander's hymn<sup>3</sup> asserts, divinely ordained. Rather, it was established through legal sleight of hand<sup>4</sup>, buttressed by the political power of the landowning classes and sustained and nourished by a slew of fiscal measures: a raft of tax exemptions and subsidies so engrained that they are regarded as "entitlements" - a very telling choice of word.

This unequal distribution has long been contested, from the Crofters' War of the 1880s and post-World War I land raids to the community buyout campaigns of recent decades. Likewise, official bodies, from the Napier Commission to the Land Reform Review Group, have repeatedly rehearsed the issues whilst legislation from the 1886 Crofters Holdings Act to the 2003 and 2016 Land Reform Acts has sought to mitigate the monopoly power of landowners.

Some things have undoubtedly changed. The spread of community land ownership has slowly begun to put control over land and assets, and the benefits that flow from them, in the hands of local communities, and various mechanisms for consultation and engagement have at least provided opportunities for a wider range of voices to be heard. However, land ownership is still beyond the reach of all but a few, the land market remains unregulated and grossly overheated, and distributional issues have been largely unaddressed. The exemptions and subsidies persist, despite the promise of reform, whilst private landowners continue to harvest windfall gains, most recently from renewables.

It is now widely understood, albeit contested by those most heavily invested in the current regime, that tackling the climate and biodiversity emergencies demands a wide-ranging transformation of rural land use: cutting emissions by reducing sheep and cattle numbers, carrying out less ploughing and muirburn and minimising nitrogen inputs and fossil fuel use whilst restoring peatland and creating more woodland.

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<sup>1</sup> <https://soils.environment.gov.scot/resources/peatland-restoration/>

<sup>2</sup> No official figures are collected. Hunter, Peacock, Wightman and Foxley's 2013 paper for the Scottish Affairs Committee suggested that 432 owners held 50% of privately owned land.

<https://www.parliament.uk/documents/commons-committees/scottish-affairs/432-Land-Reform-Paper.pdf>

<sup>3</sup> <https://archive.org/details/hymnsforlittlech00alex/page/26/mode/2up?view=theater>

<sup>4</sup> <http://www.andywightman.com/poor-had-no-lawyers>

The 2019 Climate Change Act<sup>5</sup> commits Scotland to net-zero emissions of all greenhouse gases by 2045, and the revised Climate Change Plan<sup>6</sup> sets out the Scottish Government's pathway to these targets. The Scottish Government has also committed to delivering a just transition. As the report<sup>7</sup> of the Just Transition Commission makes clear, this is not just concerned with mitigating injustices that arise because of climate change but also about taking opportunities to address existing inequalities and using the transition to net-zero as a catalyst for building a fairer, healthier, greener country.

Delivering ambitious net zero targets is undoubtedly challenging. Many governments have embraced a natural capital approach to land-use transition, monetising environmental outcomes to encourage private investment in nature-based solutions. In practice this means developing and facilitating new mechanisms to incentivise desirable outcomes; but rather than replacing the existing fiscal measures, these new incentives are typically introduced on top of them. This is not only a hugely inefficient use of public funding, as subsidies compete for land use, but also, by providing windfall gains for private landowners, these additional income streams entrench their position and the exclusion of communities from influence or benefit.

The introduction and on-going development of new flows of capital to land, and the promise of more to come, has stimulated a new cadre of buyers, with a number of well-publicised acquisitions by so-called “green lairds”: high net worth individuals, corporates and institutions acquiring land ostensibly for the delivery of environmental outcomes but often attracted by the financial returns on offer.

The high profile accorded to the green lairds and increasing public awareness and scepticism of green finance has brought issues around land ownership sharply back into focus and appears to have whetted appetites for long-overdue intervention in land markets. There is a risk, however, that any actions will be narrowly framed, tackling the headlines and appeasing public opinion rather than addressing the systemic issues around Scotland's land. At worst, measures which simply seek to tax green finance or target green lairds will do more to hinder than help the transition to net zero and bring minimal benefit for Scotland's rural communities.

What is needed is systematic review and reform of the fiscal scaffolding that supports the status quo, and regulatory interventions to align funding and other mechanisms to tackling the twin emergencies and deliver wider commitments to land reform and community wealth building.<sup>8</sup> The interventions proposed here are intended to ensure a just transition to net zero delivering the widest possible spread of benefits, including facilitating community ownership by making land more affordable and generating funds to support community acquisition and development of land.

Whilst innovative measures, such as a wealth tax, or an annual ground rent / land value tax, may have a role to play, this paper focuses largely on the realignment and reform of current mechanisms, demonstrating that there is much that could be delivered using existing levers. It argues that the land-use transition must be much more far-reaching than that underway and is too important to be left to vagaries of the market. Private sector investment is required

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<sup>5</sup> <https://www.legislation.gov.uk/asp/2019/15/contents>

<sup>6</sup> <https://www.gov.scot/publications/securing-green-recovery-path-net-zero-update-climate-change-plan-20182032/>

<sup>7</sup> <https://www.gov.scot/publications/transition-commission-national-mission-fairer-greener-scotland/documents/>

<sup>8</sup> “A new people-centred approach to local economic development, which redirects wealth back into the local economy, and places control and benefits into the hands of local people”  
<https://cles.org.uk/community-wealth-building/what-is-community-wealth-building/>

alongside Government action to deliver the scale of change needed, but it must be subject to effective regulation to ensure delivery of climate and biodiversity objectives and to provide a fairer distribution of benefits.

We know that change of land use is essential to tackle the climate and biodiversity emergencies. We should also recognise that change of land ownership is not in itself a bad thing: there is certainly no reason why the masters of our unsustainable present should be trusted to become the stewards of our sustainable future. Whilst many, including the author, regard the expansion of community ownership as offering the best prospects for a more just distribution of benefits, the scale and pace of change required to deliver the necessary land use transition makes an influx of new owners likely if not inevitable.

This does not mean that the new boss must be the same as the old boss: indeed, the new owners need not be “lairds” at all, but welcomed partners operating through a variety of governance models, with a genuine sharing of influence and benefits. Likewise, they could include a wide range of public, private and third sector bodies, as well as small scale private investors like the many thousands who have supported community share offers for renewables projects and local businesses.

What is essential is that landowners, old or new, must not be incentivised to hold or acquire land for financial exploitation, whether as a vehicle for tax avoidance or an asset class offering excessive returns on investment. Action is needed both to reform the raft of grants, subsidies and tax exemptions which drive up land prices and build and protect private wealth, and to proactively intervene in land markets to ensure that landowners make meaningful contributions to the empowerment and wealth of local communities.

Now more than ever, as the remit of the Land Reform Review Group put it, “the relationship between the land and the people of Scotland is fundamental to the wellbeing, economic success, environmental sustainability and social justice of the country”<sup>9</sup>. Implementing the package of measures proposed in this paper and ensuring the health of this relationship will be challenging for Government and will face stiff opposition from vested interests. But it is no exaggeration to say this is one of the key issues of our time. Our children cannot afford for us to get it wrong.

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<sup>9</sup> <https://www.gov.scot/publications/land-reform-review-group-final-report-land-scotland-common-good/>

## 2. Land-use transition and green finance

The critical role of land use and management in tackling the climate and biodiversity emergencies, and the need for a land use transition, is widely agreed. As the Committee on Climate Change (CCC) put it: “A future land strategy that delivers the UK’s climate goals whilst balancing other pressures will require fundamental changes to how land is used”<sup>10</sup>. Furthermore, the national greenhouse gas inventory<sup>11</sup> reveals that aggregate emissions from agriculture and land use exceed 10MtCO<sub>2</sub>e; more than 20% of Scotland’s total, and radical change is needed to bring these down to net zero, let alone for land use to be able to offset emissions from other sectors.

**Forestry** provides a very significant carbon sink, but annual sequestration is gradually declining, and will continue to do so for the next 20 years: a consequence of falling afforestation rates in the decades after the peaks of the 1970s and 1980s. The recent surge in woodland creation will not reverse this trend until 2040<sup>12</sup>. The optimal role for forestry in tackling climate change is deeply contested: whilst non-intervention native forests are arguably better for long-term storage, faster growing commercial crops have a more immediate sequestration effect, whilst harvesting and utilisation provide the opportunity for substitution of high-carbon materials such as steel and concrete.

The **agricultural sector** is a very substantial emitter, responsible for almost 15MtCO<sub>2</sub>e in 2019<sup>13</sup>. Major sources are enteric fermentation and manure from cattle and ploughing of organic soils, with sizeable contributions from fertiliser and diesel use. Tackling emissions from the sector has proved challenging to date, with very little progress in recent years or anticipated in the near future. Whilst the climate action plan targets an overall 56% reduction in Scotland’s emissions by 2032, the agricultural sector’s projected contribution is markedly lower than other sectors at 24% (cf. 68% for buildings, 52% for industry)<sup>14</sup>.

Scotland’s **peatlands** cover ~20% of the total land area and represent a massive carbon store, equivalent to 140 years’ emissions<sup>15</sup>. They are also important for biodiversity and water quality. However, past and current management practices, from extraction, draining and burning to maintaining artificially high deer and stock numbers, have left up to 80% of peatlands in a damaged condition<sup>16</sup>, responsible for very substantial emissions which have only recently been included in the National Greenhouse Gas inventory<sup>17</sup>.

Large swathes of Scotland’s uplands are managed for **deer** and **grouse** shooting, at considerable cost to both biodiversity and climate. Direct methane emissions from deer are not included in national inventories, on the pretext that they are wild animals, but are equivalent to ~200,000tCO<sub>2</sub>e, ~0.5% of Scotland’s total. Unsustainable deer numbers inhibit natural regeneration of woodland, ensure fencing and/or plastic tree shelters are required for

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<sup>10</sup> CCC “Land use: Reducing emissions and preparing for climate change” Nov 2018

<https://www.theccc.org.uk/publication/land-use-reducing-emissions-and-preparing-for-climate-change/>

<sup>11</sup> <https://naei.beis.gov.uk/index> - see Appendix I Table I.

<sup>12</sup> <https://www.forestresearch.gov.uk/tools-and-resources/statistics/forestry-statistics/forestry-statistics-2021/4-carbon/>

<sup>13</sup> Agricultural emissions are spread across both “Agriculture” and “Land Use, Land Use Change and Forestry” headings in National Greenhouse Gas Inventories.

<sup>14</sup> <https://www.gov.scot/publications/securing-green-recovery-path-net-zero-update-climate-change-plan-20182032/documents/>

<sup>15</sup> <https://www.nature.scot/peatland-action-case-study-whats-connection-between-peat-and-carbon-storage>

<sup>16</sup> <https://soils.environment.gov.scot/resources/peatland-restoration/>

<sup>17</sup> <https://www.gov.uk/government/publications/planned-methodology-changes-for-uk-greenhouse-gas-emissions>

successful woodland establishment and cause erosion of peat, whilst muirburn and hill track development for sporting purposes damage upland soils.

The CCC report is clear that whilst improved farming practices such as better soil and livestock management could deliver some emissions reductions, these will still leave agriculture as one of the biggest emitting sectors. Delivering deep emissions reductions requires fundamental changes in farming practices and consumer behaviours (including reduced production and consumption of the most carbon-intensive foods) to drive the release of land which can be used for afforestation, peatland restoration and biomass production<sup>18</sup>. Critically, this brings about immediate emissions reductions, whilst the benefits of enhanced sequestration from woodland creation are not apparent for decades.

However, the focus of Scottish Government support to date has been on what is effectively the second part of the land use transition demanded by the Committee on Climate Change: tree planting and peatland restoration, with minimal action to reduce cattle and sheep numbers or the arable area growing animal feed.

This fundamental transition is being fiercely resisted by the farming industry. The recent Farming for 1.5% report<sup>19</sup>, ostensibly outlining a pathway for making Scottish farming “climate compatible” was still predicated on the belief that “farmers must at least maintain per capita food production” and failed to acknowledge that much of Scottish agriculture does not produce food: the primary market for the majority of the annual grain harvest is the alcohol industry. The report admits that dietary change was not considered, even though “reducing meat consumption in high-consuming countries makes meeting the 1.5-degree global target much more achievable, as well as having benefits for restoring nature.”

## 2.1 Green financing mechanisms<sup>20</sup>

There are two main forms of green financing relevant to the Scottish land market: **grants**, which typically involve a direct transfer of Government funds to landowners/managers, and are usually, but not always, designed as a contribution to the costs of the work to be delivered; and **carbon credit schemes**, which provide additional income to landowners/managers from the sale of carbon. These schemes are to varying extents administered or facilitated by Government, but involve a transfer of funds to landowners/managers from other private sector bodies or individuals.

The two largest<sup>21</sup> Scottish Government grant schemes to deliver climate focussed activities are the Forestry Grant Scheme<sup>22</sup> (FGS) and the Peatland Action Fund (PAF)<sup>23</sup>. Two carbon credit schemes are currently operating in Scotland: the Woodland Carbon Code (WCC), launched in 2011, and the more recent Peatland Code (PC). Work is underway to develop

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<sup>18</sup> <https://www.theccc.org.uk/publication/land-use-reducing-emissions-and-preparing-for-climate-change/> p9.

<sup>19</sup> <https://www.farming1point5.org/reports>

<sup>20</sup> Appendix 2 contains a more detailed analysis of these grant and carbon credit schemes.

<sup>21</sup> Some elements of the Agri-environment climate scheme might also be considered relevant but the extent to which environmental outcomes are additional is largely obscured by poor scheme design and reporting.

<sup>22</sup> <https://www.ruralpayments.org/topics/all-schemes/forestry-grant-scheme/woodland-creation/>

<sup>23</sup> <https://www.nature.scot/climate-change/nature-based-solutions/peatland-action/peatland-action-fund-how-apply>

new schemes, e.g. for farm soil and hedgerows, whilst the forthcoming Environment Bill will pave the way for Biodiversity Net Gain credits in England and Wales.

Although public debate has focused on the extent to which green financing stimulates the acquisition of land, these mechanisms are generally available to all land owners and managers<sup>24</sup>, and it is likely that long-standing occupiers are receiving the majority of funds<sup>25</sup>. Green financing mechanisms may also be inhibiting the supply of land to market by offering substantial additional income streams to existing owners/managers.

Scottish Government support for green grant schemes has increased substantially in recent years, but future growth is limited by the constraints on public finances, which are argued to be insufficient to deliver net zero targets<sup>26</sup>. Carbon credit schemes are designed to tap into the much larger funds perceived to be available from institutional investors, with government agencies and environmental organisations enthusiastically mapping out the route for the first £1bn of investment<sup>27</sup>.

Investment on this scale has yet to materialise and the net flows from carbon credit schemes are still relatively small, albeit growing rapidly. However, given the land market's tendency to capitalise expectations it is reasonable to assume that the potential for substantial future income from private investment in climate change mitigation projects is already being factored into decision making and reflected in current prices.

The development of mechanisms to facilitate private investment raises a range of technical and practical concerns: whether carbon income is required to ensure the financial viability of projects; whether such funding rewards or even encourages bad practice; and to what extent private investment prioritises those projects which promise the highest rate of return, rather than the best long term environmental outcomes.

A more general concern with carbon offsetting schemes is that, whilst well-intended, they may actually be counter-productive as, rather than being used to offset genuinely unavoidable emissions, the promise of future sequestration is used to avoid or delay corporate and individual behaviour change. Getting to net-zero requires rapid and dramatic reductions in emissions. Nature-based solutions such as tree planting may be able to offset what is left, but it cannot balance out current levels of emission from fossil fuels or other sources<sup>28</sup>.

### 2.1.1 Grants

The **Forestry Grant Scheme** (FGS) was introduced as part of the Scottish Rural Development Programme in 2015 and is administered by Scottish Forestry, which publishes regular statistics

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<sup>24</sup> Public sector land managers can register and sell carbon credits and claim most grants, although Forestry and Land Scotland cannot access the Forestry Grants Scheme.

<sup>25</sup> Public registries do not require that the beneficiary is identified, although in some cases this is apparent from the project name or descriptive text. Some WCC projects, such as the Borders Forest Trust projects at Talla & Gameshope are based on acquisition for afforestation. Conversely, many others, such as the eleven taken forward by Buccleuch estates, are for the benefit of well-established owners.

<sup>26</sup> <https://www.heraldscotland.com/news/19091976.scotland-wont-hit-climate-targets-without-private-funds/>

<sup>27</sup> <https://scottishwildlifetrust.org.uk/news/route-map-to-1-billion-for-nature-conservation-published/>

<sup>28</sup> <https://theconversation.com/forests-cant-handle-all-the-net-zero-emissions-plans-companies-and-countries-expect-nature-to-offset-too-much-carbon-170336>

on applications and approvals<sup>29</sup>. It includes a range of woodland creation, restocking, management and forest development operations, although ~85% of the approved expenditure to date has been for woodland creation.

**Table 1: FGS woodland creation approvals 2015-July 2021: projects by size and cost**

Size Category	#	# %	Area (ha)	area %	Cost £	£ %
<5 ha	396	28.3%	959	1.7%	6,634,413	2.9%
5-10 ha	220	15.7%	1,597	2.9%	9,778,040	4.2%
10-20 ha	211	15.1%	3,064	5.6%	17,876,006	7.7%
20-50 ha	304	21.7%	10,453	19.1%	53,538,582	23.1%
50-100 ha	140	10.0%	9,975	18.2%	43,420,990	18.7%
>100 ha	130	9.3%	28,801	52.5%	100,978,560	43.5%
<b>Total</b>	<b>1401</b>		<b>54,849</b>		<b>232,226,590</b>	

Most of the 1401 planting projects approved up to the July 2021 clearing round are relatively small: 28% are under 5ha and the mean size of project is ~39ha, but the 9% of projects larger than 100ha account for 52.5% of the planting area and have taken 43.5% of the grant<sup>30</sup>.

FGS woodland creation grants are intended to provide a contribution to costs, with reduced rates for the largest schemes. Previous iterations of the scheme made grants payable on production of receipts for expenditure, but this system increased bureaucracy and discriminated against community groups or small landowners who did the work themselves.

**Table 2: FGS woodland creation approvals 2015 – July 2021: options<sup>31</sup> by cost and area**

Woodland creation option	#	£	£ %	area (ha)	area %
Conifer	579	115,861,899	49.9%	27,998	51.1 %
Diverse Conifer	195	19,887,043	8.6%	3,741	6.8 %
Broadleaves <sup>32</sup>	163	14,711,905	6.3%	1,707	3.1 %
Native Broadleaves	582	38,495,604	16.6%	7,509	13.7 %
Native Scots Pine	105	17,217,248	7.4%	4,132	7.5 %
Native Upland Birch	167	18,311,804	7.9%	5,405	9.9 %
Small or Farm Woodlands	169	4,283,753	1.8%	532	1.0 %
Native Broadleaves in N & W Isles	49	744,271	0.3%	69	0.1 %
Native Low Density	91	1,345,094	0.6%	695	1.3 %
Natural Regeneration	47	1,355,161	0.6%	3,056	5.6 %
<b>Total</b>	<b>2,150</b>	<b>232,213,781</b>		<b>54,844</b>	

The scheme offers nine woodland planting “options”, from “Conifer”<sup>33</sup> to “Native broadleaves” and “Small or Farm Woodland” as well as “Natural Regeneration”; many planting

<sup>29</sup> <https://forestry.gov.scot/publications/support-and-regulations/forestry-grant-scheme/forestry-grant-scheme-statistics?layout=default>

<sup>30</sup> Large schemes benefit from significant economies of scale, especially with respect to fencing, and receive little more than half (£3506 cf. £6918) the grant per ha of the smallest (<5ha) schemes.

<sup>31</sup> n=2150, rather than 1401 in previous table, because individual planting projects can incorporate more than one option.

<sup>32</sup> “Broadleaves” = “broadleaves suitable for timber production” – i.e. must be planted at relatively high densities.

<sup>33</sup> “Conifer” almost always means Sitka spruce, but a maximum of 75% of the option area can be planted with one species and 5-10% of the area must be broadleaves so actual spruce area is likely ~40% of total.

projects incorporate more than one option. The conifer option tends to be employed at a larger scale<sup>34</sup> than other options and comprises 51% of the approved planting area. There are significant regional disparities with this option accounting for 80% of approved planting in the South Scotland conservancy<sup>35</sup>, whereas the various native options and natural regeneration comprise 83% of the approved area in the Highland and Islands conservancy.

Total approved FGS funding for woodland creation from 2015 to July 2021 was £232 million<sup>36</sup>. At the current average grant rate of ~£4,200/ha it will cost £46m annually to meet the target of 12,000ha and almost £72m a year to meet the 2024/25 target of 18,000ha<sup>37</sup>.

The **Peatland Action Fund** – a multi-annual investment in peatland restoration of more than £250 million over the next 10 years – was announced by the Scottish Government in the February 2020 budget<sup>38</sup>. It follows previous funding of £30 million which since 2012 has supported the restoration of over 25,000 hectares<sup>39</sup>. Funding primarily supports on-the-ground restoration activities, including damming man-made ditches and the re-vegetation of peat hags.

Whilst FGS and PAF represent substantial financial commitments they are still relatively small compared to the current level of **direct payments and aids to farmers**, which exceeded £500 million in 2020<sup>40</sup>. These “entitlements”, which typically require little or no specific activity beyond meeting minimum standards of agricultural practice, underpin the viability of many farm businesses, but also contribute to inertia and underwrite continued high emissions.

There is considerable inequality in the distribution of direct agricultural subsidies with more than half of recipients receiving less than £15,000 and collectively accounting for ~9% of the total. At the other end of the scale 860 businesses receive over £100,000 each and collect nearly £140 million: 27.5% of the total.

## 2.1.2 Carbon credits

Two carbon credit schemes are currently operating in Scotland: the Woodland Carbon Code (WCC), launched in 2011, and the more recent Peatland Code (PC). Work is underway to develop new carbon schemes, whilst the forthcoming Environment Bill will pave the way for Biodiversity Net Gain credits in England and Wales.

Key principles underpinning all carbon credit and other nature-based solutions are Additionality (ensuring that the work wouldn't happen without external finance) and Permanence (ensuring that the sequestration, or emission reductions, or biodiversity enhancements are permanent). However, ensuring that all projects meet these principles can prove challenging and there are various practical and technical concerns.

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<https://www.ruralpayments.org/topics/all-schemes/forestry-grant-scheme/woodland-creation/conifer/>

<sup>34</sup> Conifer option mean size 48ha, cf. the various native options mean size 18ha.

<sup>35</sup> Map at <https://forestry.gov.scot/about/local-offices>

<sup>36</sup> This includes some projects to be planted in 2022 and 2023.

<sup>37</sup> Assuming in each case that 1,000ha of these targets is delivered annually by Forestry and Land Scotland without grant aid.

<sup>38</sup> <https://www.gov.scot/publications/budget-statement-2020-21/>

<sup>39</sup> <https://www.nature.scot/professional-advice/land-and-sea-management/carbon-management/restoring-scotlands-peatlands>

<sup>40</sup> <https://cap-payments.defra.gov.uk/>

The **Woodland Carbon Code**<sup>41</sup> is the voluntary standard for UK woodland creation projects where claims are made about the carbon dioxide they sequester. The WCC is based on robust and conservative carbon prediction tools, with monitoring protocols developed by Forest Research and audited by third-parties. Code processes have evolved somewhat over time: e.g. it is now necessary to register planting schemes before trees are planted.

A project and carbon unit registry<sup>42</sup> provided by IHS Markit tracks the issuance, ownership and use of carbon units. Use of the code is not mandatory for selling carbon. However, it is likely that most customers, whether businesses or individuals, will want the comfort of independent verification of carbon claims, and for sellers this is likely to be reflected in price achieved. Validation and verification of carbon sequestration is costly and militates against the registration of smaller schemes, although it is possible to establish group schemes to reduce costs somewhat.

The rate of carbon sequestration varies considerably through the life of a woodland. There may be initial emissions from establishment operations (e.g. losses from disturbance during ground preparation), then relatively little uptake for a decade or so whilst the trees are small. This profile, is however, well understood, modelled within the carbon prediction tool, and is reflected in the two “products” on the sale:

Pending Issuance Units (PIUs): these are effectively a “promise to deliver” future carbon sequestration, by purchasing early in a project before the trees have grown; these can be used in Corporate Social Responsibility claims about the future benefit of an investment.

Woodland Carbon Units (WCUs): these are tonnes of carbon dioxide proven to be already sequestered from the atmosphere into growing trees. These can be used by companies to compensate for their unavoidable greenhouse gas emissions.

As of end-December 2021 the WCC register included 638 Scottish projects, estimated to collectively generate just over 10 million claimable units from Scottish projects. 71% of these projects, accounting for 62% of the claimable units, were listed as “under development”<sup>43</sup>, with just 29% of projects validated<sup>44</sup> or verified<sup>45</sup>.

**Table 3: WCC registrations in Scotland to December 2021: status**

Project status	# of projects		area (ha)		claimable units	
Under development	452	71%	26,041.03	66%	6,216,858	62%
Validated or Verified	186	29%	13,348.31	34%	3,869,084	38%
<b>Total</b>	<b>638</b>		<b>39,389.34</b>		<b>10,085,942</b>	

<sup>41</sup> <https://woodlandcarboncode.org.uk/>

<sup>42</sup> <https://mer.markit.com/br-reg/public/index.jsp?entity=project&sort=&dir=ASC&start=0&acronym=WCC&limit=15&additionalCertificationId=&categoryId=10000000000001&name=&standardId=100000000000042>

<sup>43</sup> “Under development” includes schemes which are still in the design / FGS approval process, and others which have been planted but not yet validated. Projects must be validated within three years of registration.

<sup>44</sup> Validation is the initial evaluation of a project against WCC requirements by an accredited body.

<https://woodlandcarboncode.org.uk/landowners-apply/3-validation-initial-project-check>

<sup>45</sup> Verification assesses actual carbon sequestration and continuing management to the UK Forestry Standard <https://woodlandcarboncode.org.uk/landowners-apply/4-verification-ongoing-check-of-project-sequestration>

The WCC was launched in 2011 but some projects predate this, notably the 16 sites funded by BP and developed through the Scottish Forestry Alliance<sup>46</sup>, with project start dates between 2001 and 2007, which still account for over 30% of the total Scottish validated/verified area and units. There has been a surge in WCC registrations in recent years. The UK total almost doubled from 363 to 708 between March 2020<sup>47</sup> and March 2021<sup>48</sup>, with a further 468 added by September 2021<sup>49</sup>. There is also a trend to registration of smaller schemes: the mean size as of March 2021 was almost 45ha, whilst the new additions in the six months to September averaged 27.5ha.

In Scotland, registrations grew from 157 in March 2020 to 355 by March 2021, with a further 283 added by the end of December. Only 12 schemes were validated during this nine-month period; most of the growth is in the “under development” group. Scotland’s share of the UK total has remained broadly constant: about 50% of the projects but closer to 80% of the area.

This rapid growth in registrations demonstrates increased interest in the sale of carbon credits, and the expectation that the unit price is likely to increase significantly, which also makes registering smaller schemes more attractive. It also reflects the more general increase in woodland creation activity in recent years and the change in WCC rules which, as of 1<sup>st</sup> July 2021, require that schemes are registered before planting commences.

Species choice and management regimes have a large impact on gross sequestration and claimable units. Fast-growing conifers sequester more carbon in a shorter timescale than new native woodlands. However, the WCC heavily favours the latter, which generate more units per hectare because future harvesting plans greatly reduce the long-term sequestration impact from commercial stands whilst code calculations do not include any consideration of material substitution impacts from harvested timber.

**Table 4: WCC registrations in Scotland to December 2021: project type**

<b>Project Type</b>	<b>area (ha)</b>		<b>Carbon units</b>		<b>units/ha</b>
Clearfell only	424.85	1.1%	85,833	0.9%	202
Mixed mainly clearfell	8,883.18	22.6%	1,737,378	17.2%	196
Thin and clearfell	1,136.45	2.9%	161,659	1.6%	142
Mixed mainly thin and clearfell	10,788.86	27.4%	1,908,038	18.9%	177
Thin only	227.96	0.6%	90,646	0.9%	398
Mixed mainly thinning	478.5	1.2%	155,432	1.5%	325
Continuous cover system	772.52	2.0%	279,634	2.8%	362
Mixed mainly CC system	764.93	1.9%	242,820	2.4%	317
Mixed mainly no thin or clearfell	1,942.75	4.9%	738,523	7.3%	380
No thinning or clearfell	13,969.34	35.5%	4,685,979	46.5%	335
<b>Total</b>	<b>39,389.34</b>		<b>10,085,942</b>		

<sup>46</sup> <https://www.futurewoodlands.org.uk/about/background/>

<sup>47</sup> <https://www.forestresearch.gov.uk/tools-and-resources/statistics/forestry-statistics/forestry-statistics-2020/4-carbon/>

<sup>48</sup> <https://www.forestresearch.gov.uk/tools-and-resources/statistics/forestry-statistics/forestry-statistics-2021/4-carbon/>

<sup>49</sup> <https://www.woodlandcarboncode.org.uk/uk-land-carbon-registry>

Projects characterised as predominantly non-clearfell account for 46.1% of the registered area and 61.4% of the anticipated carbon units. The vast majority of non-clearfell projects are native broadleaves and Scots pine, whilst clearfell projects are likely to be predominantly coniferous.

There is a lack of transparency in the voluntary carbon market and considerable variation in prices quoted, which range from £5-30 per unit. It appears that prices have risen recently and are widely expected to rise further<sup>50</sup>.

Not all units are worth the same, with some buyers willing to pay a premium for units from “added value” projects that promise additional social, environmental or Public Relations (PR) benefits. WCUs are expected to be worth more than PIUs.

Where landowners are seeking to “grow their own” units to offset their own corporate emissions it is probable that carbon units will never be marketed; simply retired once converted to WCUs. To date, there is little evidence of this with fewer than 55,000 such units recorded by September 2021<sup>51</sup> but this figure is expected to rise, as ‘growing your own’ may be perceived as a useful hedge against future price increases for carbon units.

A number of technical concerns have been expressed about the WCC, e.g. whether it adequately accounts for soil emissions during ground preparation, but the most significant issue is whether or not projects – particularly those involving commercial conifers - genuinely meet the additionality test. With the timber market so buoyant it is unclear that carbon finance is necessary to make these schemes financially viable.

WCC validation requires that all expected income streams are included in the additionality assessment, and that should further income streams be identified at a later date, evidence may be requested to show that the project was not aware of this income opportunity. Any carbon units may be cancelled if projects don’t meet these requirements.

The **Peatland Code** (PC) is a voluntary certification standard for UK peatland projects wishing to market the climate benefits of peatland restoration<sup>52</sup>. The Peatland Code sets out a series of best practice requirements including a standard methodology to quantify the Greenhouse Gases (GHG) benefit. In contrast to the Woodland Carbon Code the focus of the PC is on emissions reduction rather than sequestration<sup>53</sup>. As a result of decades of unsuitable land management practices, the UK’s peatlands have become a significant net source of Greenhouse Gases, estimated to emit ~16 million tonnes of CO<sub>2</sub>e each year<sup>54</sup>.

The PC is relatively new and has fewer projects than the WCC, but has seen a similar rapid increase in registrations in the past year: there are now 38 registered projects in Scotland, covering just over 6,000ha, up from 18 in March 2021; although only 4 of these (443ha, 117,460 units) have been validated.

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<sup>50</sup> At the 2018 SRUC Land Use conference the WCC Manager quoted a range of £5-15 for PIUs

<https://www.sruc.ac.uk/news-events/events/land-use-conference-2018/>

More recently, Trees for Life have been selling carbon at £28/unit, of which £10/unit – a very substantial proportion - will go to two local community organisations.

<sup>51</sup> <https://www.woodlandcarboncode.org.uk/uk-land-carbon-registry>

<sup>52</sup> <https://www.iucn-uk-peatlandprogramme.org/funding-finance/introduction-peatland-code>

<sup>53</sup> Restored sites are still net greenhouse gas sources, albeit at a much lower level than pre-restoration, so they cannot ultimately contribute to net zero targets, which require residual emissions to be offset by net sequestration.

<sup>54</sup> <https://www.iucn-uk-peatlandprogramme.org/peatland-code/introduction-peatland-code>

At ~158ha the mean size of PC projects is markedly larger than for the WCC. Not all projects quantify expected claimable carbon units on the publicly available registry but for those that do, the average is ~206 units per ha (cf. WCC average 256 units/ha), suggesting an overall total of ~1.2million units. The potential PC earnings from a single hectare are much higher than those available through WCC: restoring 1ha of “Actively Eroding: Hagg/Gully” to “Drained: Re-Vegetated AE” can generate 1476 carbon units for a 100-year project.

At a conservative price of £10/unit, the total value of the ~4 million Scottish WCC and PC units validated to date is ~£40 million. However, there are a further 7 million units in projects under development, and as all expectations are that unit prices will rise, the total sums involved and the relative importance of green finance will undoubtedly both increase dramatically.

The Scottish Government has committed to growing the woodland carbon market by at least 50% by 2025<sup>55</sup>, although the generation of woodland carbon units is constrained by cost of woodland establishment – using natural regeneration is cheaper but dependent on seed sources and requires intensive deer management – and the availability of grants. If the annual woodland creation target of 18,000ha is met, and all schemes were registered, this might generate 4 million units annually, although appropriate application of additionality tests will reduce this to 1 - 2 million units. Credits from peatland restoration are likely to increase substantially with the introduction of the Peatland Action Fund, and with an estimated 1.3 million ha of Scotland’s peatlands in poor condition there is obviously scope for very large scale projects.

Various technical concerns have been raised with respect to the Peatland Code. The modelling used for the calculations is very simplistic, with all peatlands regardless of location across the UK covered by six pre-restoration and post-restoration categories. Additionally, the assumption that emission rates will be unchanged over 100 years appears overly optimistic.

As with the WCC, there are concerns about additionality, especially given the long time-frame of the projects and the very considerable funding now available for peatland restoration through the Peatland Action Fund. Furthermore, as the degraded condition of Scotland’s peatlands is explicitly presented as the result of decades of unsuitable land management practices, funding existing land managers could be seen as rewarding those responsible for damage in the first place by maintaining unsustainable deer numbers or carrying out excessive muirburn.

### 2.1.3 New Nature-based Schemes

There is perceived to be great potential for growth from new nature-based schemes. Various new mechanisms to monetise carbon and biodiversity are in development, with pilots for a Soil and Farm Carbon Code and a Hedgerow Carbon Code amongst 27 projects funded through the £10m Natural Environment Investment Readiness Fund<sup>56</sup> which is specifically designed to drive private investment in nature-based solutions.

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<sup>55</sup> <https://www.gov.scot/publications/securing-green-recovery-path-net-zero-update-climate-change-plan-20182032/pages/12/>

<sup>56</sup> E.g. DEFRA funding awarded for development schemes: <https://www.gov.uk/government/news/innovative-nature-projects-awarded-funding-to-drive-private-investment>

The Environment Bill now before the Westminster parliament will make Biodiversity Net Gain - a 10% biodiversity uplift - a compulsory condition of planning permission. Defra has developed a set of measures to help developers calculate how many biodiversity “units” a site includes before and after development. If the development will lead to a net biodiversity loss (after accounting for the 10% uplift), developers must then make up the difference by enhancing habitat on the site or on other land or by buying statutory biodiversity credits to pay for the creation of new habitats. Although the Environment Bill only applies to England and Wales it is anticipated that a similar requirement will be introduced in Scotland, e.g. through National Planning Framework 4, and that this will offer significant new income streams for land managers.

Any new carbon or biodiversity funding mechanisms are likely to raise the same concerns as the Woodland and Peatland codes. How can additionality and permanence be demonstrated? And to what extent will new finance reward past bad practice? By providing existing owners/managers with substantial additional income streams it seems likely these new mechanisms will further inhibit the supply of land to market whilst potentially doing little to tackle the climate and biodiversity emergencies.

### 3. New green landowners

The term “Green Lairds”<sup>57</sup> has gained considerable traction recently as a pejorative description of a certain cadre of new landowners ostensibly motivated at least partly by environmental objectives but with little consideration of the broader social and economic context. They are, however, a sub-set of a much wider array of organisations and individuals buying land and accessing the available grants and green finance opportunities.

Amongst those making large scale land acquisitions for environmental purposes such as woodland creation and peatland restoration are well-established environmental Non-Governmental Organisations (eNGOs), new community bodies with a rural development agenda, Scottish and rUK institutions and companies such as Brewdog<sup>58</sup> acquiring land to generate carbon units to offset their own emissions, wealthy individuals committed to deliver rewilding on a landscape scale, and rural investment funds and asset management organisations funded by corporate and high-net worth individuals. These are not the only actors in the land market: agricultural land is typically<sup>59</sup> marketed to existing farmers wishing to expand their operations whilst other active purchasers include more traditional shooting interests and individual “life-style” buyers seeking a private rural idyll.

These new landowners differ radically from each other on a range of metrics, including scale and objectives, the relative importance of various income streams and tax exemptions and the extent to which their ownership and activities will contribute to net zero and deliver wider community benefits. Understanding the significance of these metrics, and especially the different objectives and varying business models of new and existing landowners is crucial for designing effective future interventions to deliver a just transition to net zero. They include the following:

**Scale:** Scotland’s concentrated pattern of land ownership means such acquisitions are very often at a significant scale and could therefore represent the persistence of a local monopoly; there may be additional concerns about increased monopoly power where individuals and financial investors are acquiring multiple land-holdings.

**Objectives:** eNGOs and high net worth individuals may be ideologically fixed on rewilding for its own sake, whereas community bodies will typically be seeking to deliver broader community development benefits through employment, tourism etc. The corporates and institutions are expecting to reduce future costs (because they anticipate it will be cheaper to grow their own credits than purchase them from someone else), and seeking potential PR outcomes from net zero claims.

Forestry asset managers have traditionally been attracted by timber income and the anticipated uplift in land values, whilst their investors sought to avoid tax whilst ensuring a return on investment. New vehicles for investment in rural land are appearing, increasingly driven by the extraction of competitive returns, from both green and other sources. As

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<sup>57</sup> Although the term appears to be a recent coinage, it could be applied retrospectively to landowners such as the Scottish Forest Alliance (SFA), made possible by £10million from BP, which established more than 5,000 hectares of new native woodland across 14 sites in Scotland between 2000 and 2011.

<sup>58</sup> <https://www.scotsman.com/news/brewdog-steps-up-reeforestation-drive-with-purchase-of-cairngorms-estate-3201687>

[https://www.heraldsotland.com/business\\_hq/18672554.scottish-brewing-giant-plant-one-million-trees-loch-lomond-tesco-create-16-000-jobs-6m-fund-help-events-sector/](https://www.heraldsotland.com/business_hq/18672554.scottish-brewing-giant-plant-one-million-trees-loch-lomond-tesco-create-16-000-jobs-6m-fund-help-events-sector/)

<sup>59</sup> <https://search.savills.com/property-detail/gbedruedr210015>  
<https://search.savills.com/property-detail/gbdhrudfr210005>

revenue projections from the Real Wild Estates Company demonstrate<sup>60</sup>, whilst green grants and carbon finance are useful in the short term to facilitate land acquisition and land use change, longer term income flows are primarily anticipated from the development of commercial and residential property.

**Land Management:** All typically promise “better” land management than either the previous owners or alternative buyers such as lifestyle purchasers. Environmentally, at least, this will usually be the case, although in practice their contribution to delivering net zero by 2045 will be small, with the greatest impact of their activities occurring in the following decades.

**Business models:** A new community landowner planning native woodland creation and peatland restoration will be dependent on green grants (FGS/PAF) and green finance from carbon credits, and may need to pre-sell carbon to deliver the acquisition. In contrast, the asset managers planning to plant as much Sitka spruce as they are allowed will be happy to take the grants and carbon credits, but predicate their returns to investors on the anticipated value of the timber crop and the uplift in land values. The corporate landowners will use the green grants to cover their costs<sup>61</sup> but plan to grow and use their own credits to offset their own emissions rather than sell them. They could choose to sell their estate at a profit, but even if they retain the land indefinitely, the uplift in land values will have a beneficial impact on their balance sheet.

**Community governance:** Community landowners will have community governance built-in, whereas, as with existing landowners, other bodies will have no obligations beyond the limited formal requirements for public consultation for woodland creation schemes and development planning.

**Community benefit:** Most new buyers typically promise some wider community benefits from their activities, often in the form of new jobs, albeit that these may be seasonal, or low-paid. Any additional commitment to genuine community benefits or community involvement in governance will be voluntary. In many cases it may well depend on the landowner’s sensitivity to public image. An eNGO reliant on membership fees or a corporate buyer whose market share is dependent on maintaining a “cool” image may well be more willing to enable greater community involvement in project design or provide a wider distribution of benefits than a lifestyle purchaser or an anonymous financial institution.

The fundamental issue is that the acquisition of rural land in Scotland is unregulated, with only the most basic checks on legality and no assessment of competence. Whilst community landowners must jump through a number of extensive and progressively tightening hoops to demonstrate their bona fides and lay out their plans for future management, there are no such constraints on private individuals or organisations.

There are some checks on rural land-use, but these are limited, sometimes exempted through Permitted Development Rights, and primarily designed to protect designated species and habitats rather than promote the sustainable development of rural communities or ensure a just transition.

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<sup>60</sup><https://twitter.com/Rebirding1/status/1454106593084256260/photo/1>  
<https://twitter.com/Rebirding1/status/1454106559945052171/photo/1>

<sup>61</sup> <https://www.swfinstitute.org/news/88304/standard-life-investments-property-income-trust-buys-1447-hectares-in-cairngorm-national-park>

## 4. Scotland's Land Market

A major focus of concern with green grants and the proliferation of carbon finance schemes is their potential impact on the land market. By attracting a new range of investors, they are perceived to be contributing to driving up prices and pricing communities out of the market. Less visibly, while the public focus is on new green investors and their impact on demand for land, these green finance mechanisms can be expected to inhibit the supply of properties to market as existing landowners avail themselves of new income streams.

Sectoral market reports appear to confirm this impact, with Strutt & Parker reporting prices driven up by a rise in green investors and increased demand from residential and lifestyle buyers as a consequence of COVID-19<sup>62</sup>. The estates market was relatively stable in 2020, with 36 estates offered for sale, compared to 34 the previous year; although the area for sale reduced considerably: 34,200ha<sup>63</sup> in 2020 cf. 61,500ha in 2019. This increased demand and restricted supply is reflected in increased prices, with a total investment of a record £112m in 2020 and an average sale price of £4.7m, up 18% on the previous year.

The market for commercial forestry holdings is similarly booming, as Confor reported: "Scottish forestry plantation and land prices continue to drive forward and upward. With unsatisfied demand, the situation seems unlikely to change anytime soon. Demand is strong across the board, with a range of buyers dominated by private individuals and the investment funds"<sup>64</sup>.

This growth is largely driven by high timber prices, thus: "Balnabeeran, a 92ha spruce wood, located near Inverness and mainly planted in 1987. This property came to the market in late 2018 with a guide of £785K and sold for just over £1 million in 2019. It has been remarketed with a guide of £2 million or some £24,000/stocked hectare."<sup>65</sup> The market for small broadleaved woods is also buoyant, although this is predominantly driven by lifestyle buyers and fuelled by activities of e.g. woodlands.co.uk<sup>66</sup> to market small broadleaved woods to lifestyle purchasers and hobbyists.

Whilst the overall picture for the farmland market is more mixed, there is growth in lifestyle purchasers for smaller holdings, whilst potential for afforestation is driving purchases of hill ground. Strutt and Parker<sup>67</sup> reported that the supply of farmland for sale was at its lowest on record, with only 5,300ha advertised, a decrease of 60% compared to the 13,275ha five-year average, and that strong prices were paid for land with afforestation potential. Not all transfers come to market: it is estimated that "up to 30% of farms for sale during 2020 were available on a private and off-market basis". It was also noted that "The environment is not the only draw and purchasers can ultimately benefit from a better return on capital and inheritance tax exemptions".

There seems little doubt therefore that the availability of green finance through the WCC and PC is contributing to an overheating land market, but it is difficult to quantify that contribution and separate it from other factors, such as the soaring timber price, or the underlying market drivers which have contributed to a decades-long boom in Scottish land prices.

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<sup>62</sup> <https://rural.struttandparker.com/article/record-sums-invested-in-scottish-estates-during-2020/>

<sup>63</sup> This is 0.45% of Scotland's rural land area.

<sup>64</sup> In the August 2021 edition of Forestry and Timber News.

<sup>65</sup> <https://www.confor.org.uk/news/ftn-magazine/ftn-august-2021/>

<sup>66</sup> <https://www.woodlands.co.uk/>

<sup>67</sup> <https://rural.struttandparker.com/article/scottish-farmland-market-review-winter-spring-2021/>

Whilst concerns over the impact of green finance and green lairds are relatively new, the drivers of inflated land values have long been recognised and were analysed in detail by the Land Reform Review Group (LRRG)<sup>68</sup> and the Scottish Affairs Committee Inquiry on Land Reform in Scotland<sup>69</sup>. As the LRRG noted, between 2003-13 Scottish farmland increased in value by 204%, compared to increases of 32% in UK house prices and 55% in the FTSE 100 Share Index over the same period<sup>70</sup>.

Land values not only reflect current rewards but also factor in the expectation of future rewards. As Professor Paul Cheshire told the Scottish Affairs Committee in 2014: “land markets are amazingly efficient at capitalising almost everything. By ‘capitalising’ I mean that the price of land reflects everything about its value and use. If you try to help poor farmers by giving them subsidies, it gets capitalised into the price of land. If you give inheritance tax reliefs to farmers to try to keep family farms going, it gets capitalised into the price of land and squeezes family farmers out.”<sup>71</sup>

Additionally, the market is driven by the belief that the uplift in land values will continue forever: as Professor Jim Gallagher told the same committee “One of the striking things about land ... is that in the UK, for as long as I can remember, it has been a speculative asset. People buy land and buildings in order to have land and buildings because they think they are going to go up in value.”<sup>72</sup>

The detrimental impact of high land prices on communities was noted by Highlands and Islands Enterprise: “With respect to the purchase of large tracts of rural land (forestry, estates, islands) it is our experience that the contemporary value of such land is disproportionate to the return on investment that such assets typically generate. This could be shown as a direct legacy of the economic context and fiscal environment of land ownership over time in Scotland and a legacy which presents a barrier to diversified land ownership patterns in Scotland today.”<sup>73</sup>

High land prices limit the number of people who can afford to buy land, favour those who own land and provide an incentive for them to continue to hold on to their land, reducing the supply to market. The LRRG recommended review and reform of tax exemptions and reliefs to ensure a clear and transparent public interest justification for any public expenditure through revenue foregone; and that changes to the current fiscal regime should include restructuring them to encourage an increase in the number of land owners in rural Scotland, in the public interest.

#### 4.1 Land and Tax

Agricultural and forestry landowners benefit from a number of tax exemptions which serve to contribute to the inflated land market as buyers are attracted by the opportunity to “manage” their tax burden; indeed, these tax exemptions are often a key selling point.

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<sup>68</sup> <https://www.gov.scot/publications/land-reform-review-group-final-report-land-scotland-common-good/>

<sup>69</sup> <https://old.parliament.uk/business/committees/committees-a-z/commons-select/scottish-affairs-committee/inquiries/parliament-2010/land-reform-in-scotland/>

<sup>70</sup> <https://www.gov.scot/publications/land-reform-review-group-final-report-land-scotland-common-good/pages/63/>

<sup>71</sup> <https://publications.parliament.uk/pa/cm201314/cmselect/cmsscota/877/87708.htm>

<sup>72</sup> <https://publications.parliament.uk/pa/cm201314/cmselect/cmsscota/877/87708.htm>

<sup>73</sup> <https://publications.parliament.uk/pa/cm201314/cmselect/cmsscota/877/87708.htm>

There is a specific Agricultural Property Relief (APR) from Inheritance Tax for agricultural land<sup>74</sup>. Commercial woodland (land and trees) qualifies for 100% Business Property Relief (BPR), subject to a two year ownership period<sup>75</sup>. The gain in value of standing timber, whether from the physical growth of the trees or rises in timber prices, is exempt from Capital Gains Tax.

Exemption from inheritance tax and capital gains tax for a range of assets including land of outstanding historic interest, outstanding natural beauty and outstanding scientific interest is also available under the Conditional Exemption Tax Incentive Scheme, although as noted by the Land Reform Review Group, the public access justification for the scheme was superseded by the Land Reform (Scotland) Act 2003.

HMRC publishes information on the estimated costs of various tax reliefs<sup>76</sup> although in some cases it can be difficult to disaggregate the contribution of various sectors. In 2018-19, the most recent year for which figures are available, the aggregate cost of the various Inheritance Tax reliefs across the UK was £2.8bn<sup>77</sup>.

The income and profits from timber sales in woodlands managed commercially are free from both Income and Corporation Tax<sup>78</sup>. Annual revenue foregone will vary greatly, due to the volatility of the timber market, and is difficult to infer directly from timber price given the other multi-year costs of roading, restocking and fencing. Nonetheless, all indications are that timber prices have increased substantially in recent years, with Confor reporting sawlog prices delivered to customers £40/tonne higher than 4 years ago. Whilst the uplift in other grades is less, around £15-20/t, and some of the additional income will be consumed by increased harvest and haulage costs, it is clear that the profits from the private sector annual 4.5m tonne timber harvest have increased substantially.

One tax exemption (technically a rebate<sup>79</sup>) with direct negative effects on the climate is the entitlement for agriculture and forestry to use red diesel. Red diesel currently accounts for around 15% of UK diesel consumption and produces nearly 14 million tonnes of carbon dioxide a year. The UK Government announced at the 2020 Budget that it was removing this entitlement, except for agriculture<sup>80</sup> (as well as horticulture, forestry and fish farming), rail and non-commercial heating, from 1<sup>st</sup> April 2022. Budget costings estimated the 75% reduction in red diesel use will raise an additional £1.575bn, suggesting that the continued rebates will cost over £500m annually<sup>81</sup>.

The costs of these various exemptions and rebates are not broken down between the four nations although it seems likely that Scotland's aggregate "contribution" is in the hundreds of

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<sup>74</sup> APR is at 100% where the land is farmed by the owners or let under certain circumstances, and at 50% otherwise. <https://www.gov.uk/guidance/agricultural-relief-on-inheritance-tax#1>

<sup>75</sup> <https://www.tilhill.com/forestry-investment/taxation-matters/>

<sup>76</sup> <https://www.gov.uk/government/statistics/main-tax-expenditures-and-structural-reliefs>

<sup>77</sup> Composed of APR £956m, BPR (excluding shares) £813m, Relief on sale of land £494m and Conditional exemption for heritage assets / Other reliefs and exemptions £555m.

<https://www.gov.uk/government/statistics/inheritance-tax-statistics-table-122-exemptions-and-reliefs>

<sup>78</sup> <https://www.tilhill.com/forestry-investment/taxation-matters/>

<sup>79</sup> Gas oil intended for use in diesel engine road vehicles, otherwise known as 'white diesel' has a fuel duty rate of 57.95 pence per litre (ppl). Red diesel is entitled to a rebate of 46.81 ppl, giving it an effective duty rate of 11.14ppl. <https://www.gov.uk/government/publications/reform-of-red-diesel-entitlements/reform-of-red-diesel-and-other-rebated-fuels-entitlement#background-to-the-measure>

<sup>80</sup> This was justified on the grounds of "the continued importance of red diesel to the agricultural sector".

<sup>81</sup> <https://www.gov.uk/government/publications/budget-2020-documents>

millions of pounds a year. Similarly, the cumulative impact on land values is unquantified (and HMRC, famously, have a “don’t know, don’t care” attitude to this question<sup>82</sup>). However, the consensus is that the aggregate impact is quite possibly the largest single component of land values.

One further tax advantage for land-based businesses is that agricultural and forestry land is at present exempt from non-domestic rates. Legislation in the 1920s reduced the valuation by 50% and then to 12.5% of its gross value, before it was removed from the valuation roll completely by the Valuation and Rating (Scotland) Act 1956. The continued exemption has been widely and repeatedly criticised, notably by the 1976 Layfield Committee on local government finance, the 2011 Mirrlees Review of the UK tax system and the Land Reform Review Group, which considered that “there is no clear public interest case in maintaining the current universal exemption of agriculture, forestry and other land based businesses from non-domestic rates”<sup>83</sup>.

Non-domestic rates are currently collected locally but pooled on a Scotland-wide basis and then redistributed according to a needs-based formula<sup>84</sup>. The income foregone from this exemption, and the impact of its removal, would depend on the poundage rate. Most commentators, including the LRRG, propose a phased re-introduction of non-domestic rates for land-based businesses<sup>85</sup>.

One tax which is applied to agricultural and forestry land, albeit at a lower rate than residential property, is Land and Buildings Transactions Tax (LBTT). LBTT, which replaced UK Stamp Duty Land Tax in Scotland in April 2015<sup>86</sup>, is payable at different rates on each portion of the purchase price within specified tax bands. There are currently 5 bands for residential properties, with properties under £145,000 having a zero rate, and the top rate of 12% applying over £750,000. However, non-residential properties (including agricultural and forestry land) have just three rates, with the top rate of 5% applying on the portion of the purchase over £250,000<sup>87</sup>.

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<sup>82</sup> <https://publications.parliament.uk/pa/cm201415/cmselect/cm Scotaf/274/27402.htm>

<sup>83</sup> <https://www.gov.scot/publications/land-reform-review-group-final-report-land-scotland-common-good/pages/63/>

<sup>84</sup> LRRG “The Land of Scotland and the Common Good” p169.

<sup>85</sup> <https://www.gov.scot/publications/land-reform-review-group-final-report-land-scotland-common-good/pages/63/>

<sup>86</sup> <https://www.gov.scot/policies/taxes/land-and-buildings-transaction-tax/>

<sup>87</sup> <https://revenue.scot/taxes/land-buildings-transaction-tax/non-residential-property>

## 5. Potential Land Market Interventions

This section of the paper discusses a range of fiscal and policy measures to help facilitate a just transition to net zero. Their implementation requires that the Scottish Government adopts a more proactive role with respect to its interventions in the land market. Whilst it invests heavily in maintaining the status quo, support for land-use transition has so far largely been confined to policy development and target setting, providing some additional funding pots and, increasingly, facilitating private sector investment.

A commonly repeated trope is that the challenge of climate change and biodiversity loss is "too big for the state to deal with and therefore needs private sector investment". There's no doubt that tackling the twin emergencies needs coordinated action by public and private sectors, but the above formulation must not become an abdication of responsibility by Government or an invitation to unregulated exploitation. Whilst the finance gap for Scotland has been estimated as £15-27bn over a decade<sup>88</sup>, as much as £10bn of this could be delivered by the Scottish Government through the realignment of direct subsidies and changes to the taxation regime.

Private sector capital is undoubtedly necessary, and in appropriate partnership with local communities should be welcomed. However, the extraction of excessive returns undermines genuine action on climate and biodiversity and will not deliver a just transition. Mechanisms to mediate private sector investment are needed, such as the community shares issued by community benefit societies, offering fair but capped returns and with community control built-in, which have been essential for the development of the community energy sector.

Whilst funding streams designed to deliver climate or biodiversity objectives are welcome, they simply add fuel to the fire if they are not matched by reform or removal of existing fiscal policies that are contributing to the problem. Likewise, better alignment across Government is required. It is difficult to see how the recent investment of £50m by the Scottish National Investment Bank<sup>89</sup> in a land acquisition and commercial forestry scheme aimed primarily at minimising tax burdens of high net worth investors<sup>90</sup> contributes to delivering a just transition or the principles of the Land Rights and Responsibilities Statement.

No single intervention can deliver all desired objectives. A suite of fiscal and regulatory measures is needed to reform the land market and ensure that the transition to net zero builds community wealth not private wealth. A broad and systematic approach is needed: interventions that merely target new owners with green objectives will have a limited impact on the land market and would likely be counter-productive with respect to tackling the climate and biodiversity objectives. Measures must tackle the factors which drive up the price of land and discourage supply, and/or generate additional revenues and/or non-cash benefits for communities, whilst still facilitating a land-use transition to net zero.

The discussion in this paper focuses on the reform and realignment of existing mechanisms, demonstrating that there is a great deal that could be achieved with current levers (acknowledging the reservation of some powers to Westminster)<sup>91</sup>. This is not to say that more radical solutions, such as a wealth tax, or an annual ground rent / land value tax, might

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<sup>88</sup> <https://www.greenfinanceinstitute.co.uk/news-and-insights/finance-gap-for-uk-nature-report/>

<sup>89</sup> <https://www.thebank.scot/portfolio/gresham/>

<sup>90</sup> <https://greshamhouse.com/real-assets/forestry/>

<sup>91</sup> Note that where interventions are suggested at a particular % or £ rate, this is done to illustrate the likely sums raised at current values, rather than to propose that this is the appropriate or only possible rate.

not also have a role to play in reforming Scotland's dysfunctional land markets and tackling the climate and biodiversity emergencies.

## 5.1 Taxing Green Finance Mechanisms

One potential intervention would be to apply levies to green grants and/or the sale of carbon credits, to contribute to community benefit funds, broadly analogous to those derived from windfarms and other renewables. Whilst this provides a useful precedent there are some significant differences between the two industries: the income streams from renewables are much larger, and most of the projects in receipt of green grants and carbon finance are relatively small, many with no prospect of long-term income. An element of progressivity would therefore have to be built in, with thresholds below which no levy was taken.

Rates for community benefit funds have been set low, presumably to minimise the impact on developments. At current wholesale rates<sup>92</sup> the annual gross income from the 31.8TWh<sup>93</sup> generated by Scotland's renewables is £2.5bn, whilst the annual income to community benefit funds from renewables is just £22m<sup>94</sup>. For projects that meet Scottish Government good practice principles<sup>95</sup> and pay £5k per installed MW this equates to about 3% of gross income. If this figure was taken as a benchmark for levies on green grants and carbon credits, the sums raised would be very small.

It would be difficult to justify applying a levy to FGS woodland creation grants and the Peatland Action Fund (and not to other land management grants and subsidies) when they are explicitly designed to deliver Government targets on climate change, and only intended to be a contribution to costs. In practice, a levy is effectively a reduction in grant rate for applicants: it might disincentivise the most marginal schemes but is unlikely to have a significant impact on the land market. More importantly, it would have minimal impact on those projects where the primary motivations and the main sources of future income are timber harvesting and land speculation; grants are most important for those who can't afford to bear the cost of woodland establishment operations or have no expectation of longer term income.

There are, however, a need for grant schemes to continually evolve to ensure they better deliver policy objectives, as FGS has done with the 2019 reduction in grant rate for woodland creation where ploughing was the cultivation method used; and the more recent ruling that Scottish Forestry will not accept applications which include ploughing on soils where peat depth exceeds 10cm<sup>96</sup>. Enhanced support for afforestation by natural regeneration would deliver low cost, and low carbon emission woodland creation, although the success of this approach requires meaningful action to control unsustainable deer numbers.

Applying a levy on carbon credits, whilst perhaps a more attractive target than grants, raises some technical issues, including the timing of the levy. The simplest option would be to collect the levy at the point of sale of units. However, this punishes those who need to sell PIUs to fund woodland creation whilst those with deeper pockets can retain their units for decades; they will still have to pay levy if/when they sell WCUs but that doesn't raise money to

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<sup>92</sup> <https://www.ofgem.gov.uk/energy-data-and-research/data-portal/wholesale-market-indicators>

<sup>93</sup> <https://www.scottishrenewables.com/our-industry/statistics>

<sup>94</sup> <https://www.localenergy.scot/projects-and-case-studies/searchable-register-of-community-benefits/>

<sup>95</sup> <https://www.localenergy.scot/resources/good-practice-principles/>

<sup>96</sup> <https://forestry.gov.scot/news-releases/forestry-action-to-protect-peatlands>

contribute to community benefit funds now. Companies and institutions such as Brewdog<sup>97</sup>, or Edinburgh University<sup>98</sup> who are intending to grow their own units, rather than sell them, might never have to pay the levy.

Applying a levy requires a more transparent market than exists at present (unlike grants, the sale of carbon credits is essentially a private transaction) although this isn't an unsurmountable obstacle, as WCC requires transactions (but not currently the price) be recorded on the Registry. There is also an avoidance risk: WCC and PC registrations are voluntary, so it's possible that adding additional costs would encourage more landowners to operate outside the system, especially those who are growing their own and therefore don't need external validation to reassure buyers.

A levy on woodland carbon credits would have a greater impact on native woodland restoration projects than commercial conifer plantings. That is because carbon finance is almost always a more important factor in the overall funding picture for the former, since non-intervention woods generate more credits per hectare and give no expectation of future timber income.

Based on current levels of activity, if small schemes were excluded, a 3% levy on green grants (FGS & PAF) and carbon credits (WCC, PC) might raise £3m a year in total, although the anticipated expansion of the carbon market suggests this sum would grow substantially in coming years. At this relatively low level, such a levy would have minimal impact on the land market, but might shift the balance of projects somewhat towards more commercial schemes.

An alternative and more financially productive option would be to apply a similar levy to direct agricultural subsidies. A 3% levy applied to payments over £30,000 per annum would only affect ~35% of recipients but generate £7.5m annually. As these payments are not explicitly linked to activity it is unlikely to have any negative effects on land-use or land-use transition, nor are there any easy options for avoidance.

Whilst applying a levy on green finance and grants is superficially the most attractive intervention, the impact on the land market would be negligible and, unless it encompassed all agricultural grants, the sums raised would be small. Higher rates of levy raise more funds, but applying these to green grants and finance would have a greater impact on smaller schemes and landowners and favour those projects designed ultimately for commercial profit.

## 5.2 Regulation of voluntary carbon markets

The voluntary carbon market should be subject to much greater scrutiny and regulation of the claims of both sellers and buyers of carbon credits, in order to retain credibility, given increasing public awareness and media attention on greenwashing<sup>99</sup> and to ensure that projects actually deliver their promised outcomes.

Additionality, the principle that the carbon units offered for sale reflect sequestration that otherwise would not have happened, is central to the credibility of schemes and must be guaranteed. For non-clearfell planting schemes, where the costs of establishment are not fully

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<sup>97</sup> <https://www.scotsman.com/news/brewdog-steps-up-reforestation-drive-with-purchase-of-cairnngorms-estate-3201687>

<sup>98</sup> <https://www.ed.ac.uk/sustainability/what-we-do/climate-change/initiatives/carbon-sequestration>

<sup>99</sup> <https://www.bbc.co.uk/news/business-59119693>

met by FGS grant aid and with limited prospect of future timber income, the case for landowners accessing an additional income stream to facilitate climate- and biodiversity-positive actions seems reasonable.

However, commercial forestry projects expected to deliver significant profits from timber harvesting will generally demonstrate a positive Internal Rate of Return (IRR) even in the absence of carbon finance. Likewise, the argument that carbon finance is necessary for projects to offer a “competitive” IRR to attract investment seems to be at odds with the WCC’s requirement that a project is only additional if it “requires carbon income to turn it from a project which is not financially viable/worthwhile ... to one which is financially viable”<sup>100</sup>.

Similarly, it is difficult to see how land acquisition projects that attract investors with promises of very substantial returns from commercial and residential property development can genuinely claim to need income from carbon credits. Tightening the financial additionality test would reduce the supply of credits (and thus drive prices higher) but would ensure that only the “best” projects were supported. Projects with a high proportion of commercial conifers would be unlikely to pass, as would “business as usual” farm soil carbon projects.

In December 2021 the WCC announced to stakeholders that it was reviewing additionality: “The ‘principles’ of additionality won’t change, but by the end of March 2022, we’ll be announcing some changes to the way in which we implement the financial additionality test.”<sup>101</sup>

A more challenging but even more useful intervention in terms of tackling climate change would be the introduction of formal accreditation of the purchaser (end-users) of voluntary carbon credits to ensure that they are only offsetting genuinely unavoidable emissions.

Currently, whilst offsetting schemes go some way to regulate the claims of sellers, there are no equivalent processes for the buyers of carbon units or biodiversity offsets. Effectively, the only driver is price: for many buyers “unavoidable” is synonymous with “more expensive than purchasing offsets”. In time, as the price of offsets rises, companies may increasingly be incentivised to reduce emissions. However, evidence suggests that the major emitting industries have the lobbying power to secure additional resources or to delay the need for change.

As governments move to mandating carbon accounting for companies these should be required to comply with an independent assessment, such as Science Based Target’s Corporate Net-Zero Standard<sup>102</sup>, employing a Carbon Mitigation Hierarchy<sup>103</sup> to identify an upper level of genuinely unavoidable emissions which they could offset through the voluntary market, with other emissions being taxed. Whilst it may be harder to regulate individual

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<sup>100</sup> <https://www.woodlandcarboncode.org.uk/standard-and-guidance/1-eligibility/1-6-additionality>

<sup>101</sup> Email to stakeholders.

<sup>102</sup> <https://sciencebasedtargets.org/net-zero>

Crucially, the primary focus is on deep, rapid emissions cuts, with offsets allowed only as a means to offset residual emissions.

<sup>103</sup> Mitigation Hierarchies are well understood and widely used in natural resource management. Wording varies according to context but usually boils down to Avoid, Reduce, Replace, Compensate/Offset where avoidance (of emissions, in this case) must be done first, followed by reduction and replacement, with offsetting only taking place once those options have been exhausted. Skipping the Avoid and Reduce steps and going straight to compensation/offsetting undermines efforts to reduce emissions.

buyers, it should be possible to place limits on the volume of personal offsetting and, for example, to disallow individuals from offsetting their air travel for foreign holidays.

Regulating carbon and other offset markets in this fashion would reduce demand for credits, potentially lowering their price. More importantly, however, it would help ensure that they were being used for their intended purpose, contributing to tackling the climate crisis, rather than simply greenwashing business as usual.

### 5.3 Tax exemptions, subsidies and rebates

Removing or greatly reducing the scope of the tax exemptions apply to land would have a significant impact on the market, both in reducing prices and encouraging supply. In most cases it would also help level the playing field for community landowners and others who are genuinely focused on land management by differentially dis-incentivising new or existing owners, for whom speculation or tax avoidance are key objectives of land ownership.

Any such proposals would be fiercely opposed by landed interests, and implementation would probably have to be phased over a number of years, because the scale of change is so great that it might well be damaging if introduced overnight (especially with respect to direct agricultural subsidies, without which most farm businesses would apparently be loss-making).

Capital Gains Tax and Inheritance Tax are presently reserved to Westminster, so immediate reform is not within the gift of the Scottish Parliament. However, given that the land market capitalises future expectations, the Scottish Government could have an immediate impact by demanding repatriation of the necessary powers and declaring its intention to remove these exemptions as soon as possible in order to deliver climate change and land reform policies.

The Scottish Government does have the power to bring agriculture and forestry businesses within the scope of the rating system. Relief for small business is available, so smaller agricultural and forestry holdings would be largely excluded from impact, whilst it would also be possible to establish new reliefs for certain desirable activities such as organic farming and woodlands with high recreational use or covered by environmental designations.

Removing the exemption from non-domestic rates would raise funds to be hypothecated to community ownership / development and have a long term impact on land prices. The scale of revenue generated and the extent of the impact on land markets would depend on the poundage rate introduced. As the Land Reform Review Group recommended, the re-introduction of non-domestic rates for land based businesses could be phased in over several years<sup>104</sup>.

The rates of Land and Buildings Transaction Tax for non-residential properties should be brought into line with those applicable to residential properties, with a top rate of 12% applying to the proportion of the purchase price over £750,000. This would affect all large scale land acquisitions, rather than specifically targeting new green landowners, have a mild dampening effect on the market, and would raise ~£6m per year from estates<sup>105</sup> for community benefit funds. Additional bands for higher value properties should also be considered.

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<sup>104</sup> LRRG report p170.

<sup>105</sup> Based on the figures in the Strutt & Parker report quoted previously.

Direct payments and aids to farmers exceeded £500 million in 2020. Whilst applying a levy to these would raise funds for community development, a more radical move would be to completely abolish all such payments, which would have a very substantial impact on the land market. As many farm businesses claim to be dependent on public subsidy a more pragmatic scenario would be to reduce and refocus these monies on the delivery of specific public benefits. The challenge for Government is to ensure that any replacement schemes fund genuinely additional and desirable activities, rather than simply finding new ways to subsidise business as usual. Two obvious options are to support farmers to move to less damaging forms of production, or to remove land from agriculture completely.

Removal, either immediately or phased over a few years, of agriculture and forestry's continued use of rebated red diesel, would raise additional revenues and deliver lower emissions, as businesses sought to reduce diesel use.

#### 5.4 Public Interest Tests and the Land Rights and Responsibilities Statement

The Land Reform (Scotland) Act 2016 mandated the preparation of a Land Rights and Responsibilities Statement (LRRS), published in 2017<sup>106</sup>. This sought to inform policy and practice around land issues in Scotland, identifying 6 key principles, covering sustainable development; diversity of ownership and tenure; community ownership; the responsibility to meet high standards of land ownership, management and use; transparency; and greater collaboration and community engagement. Whilst broadly welcomed, the LRRS is essentially voluntary, encouraging good practice and backed by advisory protocols rather than powers of enforcement or sanction in cases of non-compliance.

The Scottish Government is currently consulting on the 5 year review of the LRRS<sup>107</sup>. This is an opportunity to update and strengthen the LRRS, to clearly identify expected behaviour of all landowners, and provide enforcement powers for cases of non-compliance.

The updated LRRS seems likely to highlight the issues around a just transition. The consultation document proposes an amended vision (additions in bold): "A Scotland with a strong and dynamic relationship between its land and people, where all land contributes to a modern and successful country **and supports a just transition to net zero**, and where rights and responsibilities in relation to land **and natural capital** are fully recognised and fulfilled."

These additions are very welcome but need to be further developed throughout the Statement; thus, whilst the first principle proposes that "the overall framework of land rights, responsibilities and public policies should ... help achieve social justice and build a fairer society" there is no explicit reference to distributional issues, such as who benefits from the profits of land ownership and management.

One desirable development would be that (perhaps as a condition of receipt of grant support) large scale landholdings be expected to produce and consult on a Management Plan demonstrating delivery of public policy objectives. Such a requirement already exists for the

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<sup>106</sup> <https://www.gov.scot/publications/scottish-land-rights-responsibilities-statement/>

<sup>107</sup> <https://www.gov.scot/publications/review-of-land-rights-and-responsibilities-statement-a-consultation/pages/1/>

forestry sector, where forest holdings over 100ha must produce a Long Term Forest Plan<sup>108</sup> to access forest management grants.

To be effective, the updated LRRS must be backed with enforcement powers, with Public Interest Tests (PIT) being one of the potential remedies for non-compliance. There could be various possible triggers for a PIT: transfer<sup>109</sup> of landholdings of scale; concern over the impact of monopoly landholdings on local economies and communities; or failure of landowners to meet their responsibilities under the LRRS.

Similarly, there are a number of elements to the definition of the public interest, including compliance with the LRRS, whether wider public policy objectives such as climate, biodiversity and flood protection are being met, and whether the current or proposed ownership and uses contribute sufficiently to a just transition and assist in building community wealth.

There would be a range of outcomes linked to the application of any such test: at one end of the enforcement spectrum, it could be determined that there is no case to answer. At the other, the judgement could be that the breach of the LRRS is so egregious as to require that the current ownership be broken up, e.g. through compulsory sale orders. However, given that the objective of the LRRS is to promote and facilitate better land management, it seems more likely that where it is determined that there is a case to answer, the outcome will be to require improvements to current practice and commitments; for example to deliver broader social and community benefits and ensure community involvement in governance.

The effect of such measures on new landowners would be dependent on individual circumstances, on the PIT criteria and on the detailed requirements of the updated LRRS. Given the importance of tackling the climate and biodiversity emergencies, most if not all prospective green lairds could be expected to argue that they will be delivering public policy objectives and represent a considerable improvement on previous land management practice.

However, overcoming monopoly concerns could provide a challenge for those seeking to acquire multiple landholdings and, based on current evidence, there is likely to be considerable variance between owners with respect to the delivery of wider public benefit. Appropriately designed PITs could prove an effective mechanism to ensure that all new and existing landowners deliver broader community benefits and contribute to a just transition.

The impact of public interest tests on the wider land market would depend on their design and that of the LRRS. However, as they might be expected to restrict the activities of lifestyle purchasers or those looking to acquire land primarily for the extraction of profit, this should reduce demand somewhat. Compulsory sale orders might also increase the supply of land to market, although these would probably only be used sparingly in the most egregious cases.

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<sup>108</sup> <https://forestry.gov.scot/publications/132-long-term-forest-plans-applicant-s-guidance>

<sup>109</sup> Whether by sale, long lease or inheritance or other disposition (sale of shares etc).

## 6. Conclusions

Concerns about the impact of green finance on the rural land market are well founded, but are symptomatic of the broader issues around Scotland's unregulated land market. The new landowners are heterogeneous, with the balance between genuinely green and purely financial motivations varying considerably; in some cases investment is driven at least as much by the prospect of future rewards, often from property speculation or the promise of future development opportunities, as by green incentives. Concurrently, although with a much lower public profile, the same green finance mechanisms are being widely accessed by more traditional landowners, often reinforcing existing inequalities and in some cases rewarding unsustainable land management practices.

The importance of green finance to project business models differs, depending on context. Measures which tax carbon finance are likely to place the heaviest burden on those projects being taken forward by community or smaller landowners, or where carbon finance is most necessary to support costs and would be unlikely to have much effect on the overall land market. What's required, to ensure that the money goes where it is needed and that offsetting schemes genuinely contribute to emissions reductions, is much tighter regulation of both sellers and buyers.

The issues around Scotland's land market, and the exclusion of local communities from influence or a fair share of benefits, are long-standing and systemic. They go well beyond the impact of green finance and addressing them requires a broad suite of fiscal measures and regulatory interventions.

Tackling the twin climate and biodiversity emergencies is one of, if not *the*, existential problems facing all Governments. The Scottish Government has made broad pledges and set encouraging targets, and has also committed to the achievement of a just transition; all of which is to be welcomed. To date, however, action at the scale required has been lacking, and there is an apparent readiness to characterise the state's role as a facilitator for private capital.

Critically, new measures and initiatives whilst welcome, are typically additional; overlaying and sometimes competing with existing fiscal mechanisms, adding fuel to the fire rather than addressing the underlying issues. It may be easier, politically, to announce a new initiative than to unpick a well-entrenched system defended by powerful lobbies, but devising new grants to "outbid" existing funding streams is not an effective use of public money.

As has been demonstrated, the Scottish Government has a range of tools available to tackle the climate and biodiversity emergencies whilst delivering a just transition and reforming Scotland's land market in the public interest. Whilst some are new, the majority represent reform, realignment and in some cases repeal of existing mechanisms to ensure that they contribute to, rather than inhibit, the delivery of policy: as with medicine, the first principle of Government must be *primum non nocere* – "first do no harm".

## 7. Summary of recommendations

This paper proposes a suite of twelve recommendations under four headings for the reform and realignment of existing fiscal and policy mechanisms to help reform Scotland's dysfunctional land markets and tackle the climate and biodiversity emergencies. The recommendations will not, on their own, deliver a just transition to net zero, but collectively they will at least ensure that Government action is properly aligned and focussed to optimise achievement of Government objectives.

1) Review and regulation of green finance mechanisms to ensure that they contribute effectively to net zero:

- Continue the evolution of green grant schemes, ensuring that they provide a significant contribution to costs whilst incentivising best practice.
- Tighten regulation of carbon and biodiversity sellers to ensure additionality and remove rewards for past bad practice.
- Introduce mandatory third party accreditation of carbon and biodiversity buyers to ensure that only genuinely unavoidable emissions are offset.

2) Reform of subsidies and tax exemptions which distort the land market and perpetuate current unsustainable land use, ensuring that any future fiscal measures are fully aligned to delivering the full range of Government objectives:

- Demand immediate repatriation of powers over Inheritance Tax and Capital Gains Tax and declare the intention to remove these exemptions for land.
- Initiate a full-scale reform of direct agricultural subsidies, with a phased re-alignment of funding away from the most damaging forms of production and towards the delivery of specific public benefits.
- Align the non-residential rates of Land and Buildings Transaction Tax to those for residential properties.
- Remove the red diesel rebate for agriculture and forestry.
- Initiate a phased re-introduction of non-domestic rates for agricultural and forestry land.

3) Regulation of large scale landownership and land use through a revised Land Rights and Responsibilities Statement, backed by Public Interest Tests:

- Update the Land Rights and Responsibilities Statement to incorporate distributional issues, introduce requirements for land management plans and enforcement powers for non-compliance.
- Develop and introduce Public Interest Tests for new and existing landholdings at scale to ensure wider public policy objectives are being met.

4) Provision of community benefit funds to help ensure a broader distribution of benefits from the transition to net zero:

- Commit funds raised from the alignment of rates of Land and Buildings Transaction Tax to community development and climate action projects.
- Apply a levy to direct agricultural subsidies, raising funds for community development and climate action projects.

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