



Natural Capital and Land Reform: Next Steps for a Just Transition

Executive Summary

Scotland is embarking on significant land use change to meet climate and nature goals. Land reform and wider changes to land, tax, and fiscal policy need to work in coordination to make this a just transition – one which will meet the needs and ambitions of Scotland’s people and put the economy in a stronger, more resilient position.

The Scottish Government is committed to increasing the levels of responsible private investment going into climate and nature action. Ministers also underline that this must be a just transition with similarly ambitious commitments to land reform, community empowerment and rural repopulation. There is nothing inherently contradictory in these ambitions if the tensions are addressed by deliberately shaping the markets and policies that drive delivery.

Scotland will need investment, both public and private, in land to deliver on climate and nature goals, but the country can and should be careful in setting the terms for this investment. Now is a critical time to put in place the framework of policy and regulation to direct investment well, and to ensure financial value is shared and used fairly.

Scotland’s underlying pattern of concentrated land ownership, combined with a relatively unregulated land market, is a challenge to realising the just transition. Scotland’s land is in high demand for a range of reasons, not just for emerging carbon and nature markets but also timber demand, agricultural demand, long-term capital value, and as a financial hedge against inflation. With a limited supply of land coming to the market, prices are high – and rising.

The policy and regulatory response should address the particular role of carbon and nature markets, but a coordinated set of wider reforms should also address the underlying matters of land ownership and the operation of the land market. Agriculture and forestry in Scotland are already heavily shaped by government, and policy levers are available to shape land use change in a joined-up way.

Over the last year the Commission has provided advice to shape and promote responsible practice in natural capital investment, helping to implement the Scottish Government's [Interim Principles for Responsible Investment in Natural Capital](#). The voluntary adoption of responsible practice will remain an important way to achieve positive impact, but it is insufficient. Further steps in policy and regulation are also required.

Both the land market and emerging nature and carbon markets are shaped by public policy and we recommend that both are regulated more strongly if they are to play the role that government seeks. There is also no reason investment in natural capital cannot help accelerate greater community ownership and influence in governance if we shape it deliberately to do so.

In line with our recommendations of June 2022 we therefore continue to advise Scottish Government that:

1. The Scottish and UK Governments implement stronger regulation of the carbon and nature markets to ensure these markets play the role required and retain social licence.
2. Stronger regulation of concentrated land ownership is introduced through the Land Reform Bill.

We also make new recommendations for further steps in policy and regulation in the areas of ownership, governance and community agency; land use policy and public finance; and treating financial value in a fair and productive way to support community wealth building. These recommendations are:

3. The Scottish and UK Governments should build the expectation for direct social and economic benefits to communities into conditionality for carbon and nature market participation and for receipt of public finance. The concept of community benefits should extend beyond financial benefit to include ways that support local economic and social wellbeing and increase community agency in decision-making, control, and ownership of land.
4. The Scottish Government and public bodies strengthen the support available to enable communities to have agency in natural capital and land use change.
5. Public finance support including forestry grants should become more conditional on delivering agreed social and economic benefits and agency at a community level.
6. The Scottish Government should strengthen regional land use planning. We propose Regional Land Use Partnerships be empowered to integrate land use planning, priorities, and funding at a regional scale.
7. The Scottish Government should develop an effective policy framework to secure a fair share of capital land value for public and community benefits.

Conclusion

The Scottish Government has set out a bold direction of change to deliver on climate and nature goals and to make a just transition. Market activity alone is unlikely to deliver the just transition sought, but both the land market and emerging carbon and nature markets are shaped by public policy. Stronger regulation of these markets is necessary to shape them in the public interest.

Some of what we have recommended requires statutory measures, which we recognise take time to develop, and some involve interaction with UK and international frameworks. Aware of the fast pace of change, we also propose greater use of conditionality in public finance support, and support for the capacity and governance models that increase community agency in decision-making, control, or ownership. These do not require statutory measures and could have significant influence.

The Commission makes these recommendations now because we see a window of opportunity in which decisions on legislation, policy, and regulatory frameworks can be implemented to shape rapid changes on the ground. We acknowledge that policy and regulation will need to continue to develop over the longer term to fully address the issues discussed here and to develop them in the wider context of land use change and the rural economy beyond an immediate natural capital focus. We will publish further Guidance to support implementation of the expectation that investment creates benefits to communities.

In planning our future programme of work, the Commission will give careful consideration to how our work can inform longer-term reforms – for example, in relation to governance, land values, tax and fiscal policy, or land use planning. We will include ways to promote and support development of more diverse land governance models in which communities have meaningful agency in decision-making.



Read the full 'advice and recommendations' [here](#).