

Selling nature

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How do we put an economic value on what nature does for us? Charles Cowap examines the opportunities for rural surveyors and valuers to make commercial deals for natural capital and ecosystem services

A global company with a market capitalisation in excess of ?200bn has made a commercial agreement with a group of farmers, under which they will stop growing intensive crops such as maize and revert to traditional pastoral methods of farming.

This is no softly-softly response to the demands of corporate social responsibility, but a hard-nosed business decision to protect a vital asset. The company has seen a 6% annual growth in its share value over the past 10 years ? from ?36 to ?66 a share ? and regularly generates a dividend yield of 3%. The company is [Nestl?](#) , and the brand being protected is [Vittel mineral water](#) .

French law provides that natural mineral waters cannot be treated or blended before they are bottled. Vittel relies for its natural taste on very low levels of both nitrates and a complete absence of nitrites ? well below the maximum levels permitted by law. Local farming activities were threatening the unique aquifer from which Vittel water is drawn, and Nestl? spent 10 years working to understand the nature of the problem and how to resolve it. More than 20 farmers ? the whole of the catchment ? now have contracts of up to 30 years with an intermediary sponsored by Vittel to farm the land in ways that will benefit rather than damage the Grande Source.

The Vittel scheme is not unique. For example, at a [National Trust](#) estate in Somerset, there has been an extensive trial to modify water flows and farming practices to protect the village of Holnicote from flooding. Early indications are that this work has been successful, in a place where the [Environment Agency](#) would not be able to justify hard flood defence works. Water and flooding are not the only examples; nationally and internationally there is also interest in carbon capture, visitor payback and other eco-entrepreneurial initiatives that can promote biodiversity, public health benefits and amenity.



Figure 1: Grass bund, water outlet and soakaway, National Trust Holnicote Estate

Environmental stewardship

Rural surveyors and valuers possess the professional knowledge and skills to support new commercial opportunities in the protection and development of ecosystem services. Our professional origins lie with the ecosystem services that feed, house and clothe us: farming, forestry and minerals.

Stewardship of the environment ? sustainability ? is at the heart of the long-term management of rural estates and the broad range of ecosystem services that regulate and support the natural environment. Most rural surveyors actively enjoy the many cultural benefits of the countryside, from informal to highly organised recreational activities, and many are also involved professionally in their management.

Ecosystem services and natural capital

Broadly speaking, ecosystem services are what nature does for people. There are various ways to classify them, but one common framework, adopted for the [UK National Ecosystem Assessment](#), is:

- **provisioning services:** these services, such as farming, forestry, minerals and energy, are how nature sustains our physical needs
- **regulating services:** the water and carbon cycles are examples of the ways that natural resources are maintained in balance
- **supporting services:** pollination by insects is one instance of the functions that are essential to natural lifecycles
- **cultural services:** benefits we take from the environment for our health and welfare include the countryside as a place to relax and play, and as inspiration for art and poetry.

Natural capital approaches acknowledge that ecosystem services have an economic value to humans, and seek to recognise this value. The UK has a [Natural Capital Committee](#) that is developing our understanding of these areas with a remit to generate reliable values for the national accounts. These values will play an increasing role in development and management decisions ? especially as companies are required to account for their relationship with the environment. Rural land managers will need to understand these approaches and be expected to use them.

The art of the deal

There is potentially far more to working with the ecosystem approach than just valuing natural capital. Many chartered surveyors are seen by their clients as trusted advisers; furthermore, as a profession, we are confident of our role as agent and intermediary, and proud of our ability to negotiate complex agreements successfully.

But before a deal is sealed, the opportunity must be identified and appraised ? again a familiar role for practising rural surveyors and valuers. As professionals, they bring vital attributes in the development of contracts for the provision of natural services, in the form of [Payment for Ecosystem Services](#) (PES) schemes. Who, for example, will be the first chartered surveyor to galvanise a group of clients to sell flood protection benefits to a national utility such as [Network Rail](#) ?



Figure 2: Erosion on Kinder Scout in the Peak District leads to loss of carbon and water-holding capacity

Opportunities

The full appraisal of any PES opportunities for a landowner calls for a wide range of rural professional knowledge to be used.

The economic case starts with a careful, partial budget. Balance the extra income and saved costs against potential revenue forgone and extra costs: a healthy positive balance shows initial viability. How sustainable and risk-prone will this be?

Next, consider the capital and taxation implications. Will there be a change in tax status? For example, might revenue be categorised as farming income, could the status of land be defined as a business asset for capital gains tax or as agricultural property for inheritance tax, or may supplies be exempt or chargeable for VAT?

The most successful PES contracts will be the ones that enable synergy between buyer and seller. The seller – the landowner – would achieve a good margin above the opportunity cost of the existing land use, with the buyer receiving a commercial benefit at a significantly lower cost than the alternative.

A water company receiving a regular supply of better quality water may be able to save significantly on treatment costs; a utility company could save big sums on flood damage repair, and on compensation to customers for service disruption. Large companies are increasingly aware of their dependence on the environment, and are being expected to account for these values in their annual reporting.

Entering a PES contract is likely to be a long-term commitment. Clients will need extensive due diligence advice before they can proceed, for example, on the following issues.

- Are legal or other interests such as loans secured on the land? What form does ownership take ? outright simple ownership or trustees? Are there other interests ? covenants and easements, for example? Are the land?s occupiers tenants, licensees or commoners? Are there sporting and mineral rights? What are the interests of beneficiaries?
- Do any designations apply, such as Site of Special Scientific Interest (SSSI), National Park, Access Land or the designations under the [Countryside and Rights of Way Act 2000](#) ? There will be others. Do the requirements of a PES contract heighten the prospect of SSSI designation, and what would be the consequences? It is easy to see this as a threat, but are there also opportunities?
- How will a new PES contract interact with existing commitments such as those under the [Countryside Stewardship](#) scheme? Who needs to be consulted, and with what degree of formality?
- Are there planning and other development opportunities? Consideration must be given to any potential hindrance these may cause. Equally, development may be a potential source of PES contracts, for example through natural flood protection or sustainable drainage schemes.
- What are the implications for farming? Stocking rates will need to be considered, along with all other elements of the partial budget. There may be opportunities to use farm machinery and labour as part of the PES contract, for example in the maintenance of natural channels and other features.
- Are there any animal welfare considerations? Some PES contracts may result in land lying wetter for more of the year, so footcare may need more attention, or a PES contract may be the source of capital funding for new buildings to house livestock over the winter for longer. In certain areas, bog asphodel *Narthecium ossifragum* has become a problem for some stock; the circumstances in which this plant can become toxic to some animals but not others are complex, and contracts may need suitable terms to cover contingencies such as this.
- Careful consideration is required of land?s eligibility, both in principle and in detail, for basic payment purposes, with regard to its availability for farming and the requirements of cross-compliance. Looking beyond Brexit, it seems likely that public support for farming will take on more of the characteristics of a PES contract. Given the vagaries of public support schemes, is a commercial contract with a private company that derives a clear commercial profit from the arrangement actually a better prospect in the long term?
- Public liability and insurance questions will be at the fore where any degree of public access is involved, whether as part of the PES arrangement itself, or because land is already open to the public under the 2000 act access designations or as footpaths and bridleways. Closely allied to this will be risk assessment for health and safety purposes.



Figure 3: Experts examine peatland restoration on Dartmoor. Benefits include better hydrology and enhanced carbon storage

Form of contract

There is no set form for a commercial PES contract. Some agreements may take effect as a lease or licence, others as a positive or restrictive covenant. It will be vital to ensure that it is framed carefully ? for example, an agreement that gives or implies exclusive possession of land in return for a payment may be interpreted as a lease for a rent at some future date, even if this was not the original intention.

The security of longer-term contracts regarding future changes in ownership will also need to be considered. Currently, only restrictive covenants can be enforced against successors in title in England and Wales. Scotland has a system of conservation covenants under which positive terms can be enforced against successors, but use and experience of these is minimal. There are various roundabout ways of securing succession, but they too will need to be carefully framed.

The [Law Commission](#) has proposed a mechanism for conservation covenants in England and Wales, but further legislation is still required. The scope for such covenants will nevertheless be limited, with their use by commercial organisations denied, for example.

There will be a need for specialised legal advice in the early years as well. Rural surveyors are

well placed to frame this requirement and work with the other professionals whose input will be needed, including access to barristers through the licensed access arrangements, formerly Direct Professional Access.

Whatever form a legal contract eventually takes, it is almost inevitable that there will be both short- and long-term aspects to the agreement. The shorter-term aspects may be covered in a separate document committing the parties to regular reviews of management activity, progress with the intended outcomes of the agreement, renewal of capital works and other day-to-day aspects of management.

Our experience with agricultural licences and leases, as well as management agreements, stewardship agreements and the like, will all provide a valuable background in enabling us to undertake this work with confidence. We have a duty both to our clients and ourselves to engage fully with these new ways of thinking in the management of rural assets.

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Value of natural capital RICS insight paper

Fiona Mannix, Associate Director RICS Land Group, writes: Our first paper on ecosystem services, [Challenges for international professional practice: from market value to natural value](#) outlined how new approaches to the appraisal, valuation and management of natural capital and nature's services ? ecosystem services ? promise to transform the way land is managed, development is undertaken, assets are appraised and valued, and payment is made for a range of goods and services previously taken for granted.

Our second paper *Value of natural capital ? the need for chartered surveyors* develops our thinking in this area. While the paper outlines case studies that involve grasslands and woodlands, the approaches can be applied across a range of natural assets. The paper was launched at our Rural Conference in Cirencester on 20 June.

RICS encourages all chartered surveyors working in land and natural resources to familiarise themselves with this paper and other relevant industry publications, while staying abreast of developments in ecosystem services.

Further information

- [The Vittel payments for ecosystem services: a ?perfect? PES case?](#) by Dani?le P rrot-Ma?tre, published by [International Institute for Environment and Development](#) and the [UK Department for International Development](#) , September 2006
- Related competencies include: [Land use and diversification](#) , [Management of the natural environment and landscape](#)
- This feature is taken from the RICS *Land journal* (Aug/Sept 2017)
- Related categories: [Environmental management and policy](#) , [Ecological considerations](#) , [Enviromental monitoring and control](#) , [Rural estates and farms](#)