

Briefing

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KEY MESSAGES

Government must put in place the necessary guardrails and regulation to ensure natural capital markets balance public value benefits from private finance, alongside their public investments.

Without good regulation, many farmers consider the risks of getting involved are too high and this is hampering the growth of the market.

Many farmers perceive an unequal distribution of power and control across current supply chains, further delaying action.

The recent Nature Markets Framework published by government is welcome in setting standards – but now we need regulation and firm commitments.

Done well, this is an opportunity to establish the UK as a global leader in developing good policy to shape this much talked about, but still emerging, market.

Guardrails, guidance and actions

What natural capital markets need from government

A new report out this week, *[Natural Capital Markets: what farmers and policy makers need to know](#)*, seeks to understand how new and emerging markets in natural capital fit into a changing landscape for farmers. It asks what role governments should play in shaping and enabling these markets to achieve substantial and speedy action towards their climate goals and nature recovery.

In the last month alone, reports from Green Finance Institute and Bankers for Net Zero have explored how private finance could help farmers to sequester carbon, create wildlife areas and deliver other important environmental value. But despite the urgent need to invest in more sustainable farming to deliver the necessary climate and environmental actions, there is not yet enough practical action on the ground from farmers, landowners and land managers commensurate with the scale of the challenge.

The Nature Markets Framework

The Westminster Government responded to the growing interest in natural capital markets with the publication of the Nature Markets Framework document in early April. This is welcome in terms of setting standards and clarifying how public and private money can work together. But the market now needs more than consultation, consideration and scoping - it needs clear regulation and solid commitments. If the private sector is to 'do the right thing', farmers need a well-regulated, sophisticated and fair market within which to operate.

Meanwhile, the positive messages in the Nature Markets Framework report hide an underlying structural imbalance between powerful and experienced international markets players and individual farmers. Produce buyers are unwilling to pay farmers for insetting environmental outcomes in their existing supply relationships when they can still buy cheaper commodities (imported and homegrown) grown under environmentally damaging conditions. Farmers need to know that they will be treated fairly, and doing the right thing is good business. Likewise larger corporates want to see a level playing field if they invest in climate and nature friendly practices. At the moment, there is procrastination and uncertainty, delaying actions that will lead to a just transition for UK farming.

Farmer perceptions

Many farmers perceive an unequal distribution of risks and rewards across current supply chains. Wary of selling their natural capital to the highest bidder, they worry that existing supply chain partners could demand progress on climate and nature goals in the future. If they have already sold their natural capital, they could be left unable to respond to these demands. In this report, many farmers told us they cannot risk losing further control in their markets when many are already in a weak position as price takers for global commodities.

As businesses begin to tackle all the environmental impacts of their supply chains (scope three emissions), there are opportunities to establish fairer, more transparent, and more trusted systems to ensure a just transition for all actors in the supply chain. But the potential of natural capital markets is being held back by lack of clarity about what public and private finance can each do, within a coherent and aligned government vision. The government argues that ELM replaces the Common Agricultural Policy in England; and there is untapped potential for private finance to fill the void left on farm balance sheets by the removal of basic payments. But both ELM, and the private nature market payments, will only cover additional environmental outcomes that displaced more intensive agricultural production. Questions therefore remain about how much private finance would have to do, to fill the current gap between ELM and BPS, a loss of income which is causing many farmers, especially in upland farming, serious concern.

Making nature markets work

Nature markets can still be a vital future element of UK farming systems - if they can be made to work. The immediate challenge is to encourage government to put in place the necessary guardrails and policy frameworks to get the balance right between public and private finance, while growing a thriving farming sector able to help tackle the 'poly-crisis' of climate, nature, food security and diet related ill-health. Good, clear, mission-led regulation could kickstart natural capital markets, giving farmers confidence to optimise the potential of private funds, and to build climate action and nature recovery into their business plans.

This is also an opportunity to establish the UK as a global leader in these policy discussions. The principle of public money for public goods has already had international impact. Establishing a framework of rigorous natural capital standards (including for international trade), data, monitoring and reporting would be an influential next step.

The Natural Capital Markets: what farmers and policy makers need to know report was written by Prof Fergus Lyon and Dr Amy Burnett of Middlesex University, commissioned by the Food Farming and Countryside Commission (FFCC) and supported by the Prince's Countryside Fund.