**Economic Policies and LINK:**

**Briefing on importance of economic policies for LINK and its members**

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**Economic Policies and LINK:**

**Briefing on importance of economic policies for LINK and its members**

**1. Introduction**

This paper is written as part of Scottish Environment LINK’s Flourishing Scotland Project. Its purpose is to assist LINK and LINK taskforces to engage in debates about economic policies and their affect on the environment, and to enhance advocacy capacity. The paper will give an overview of economic policies that are of interest to the environment and the current level of engagement of LINK taskforces with economic policy. It will comment briefly on areas of economic policy of most relevance to environmental concerns and on the current state of knowledge and debate within the environmental movement. Drawing on this, it makes some suggestions about priorities for LINK activities. It is seen as a discussion paper, and does not represent a LINK position on any of the areas covered.

The economy and the environment are inextricably linked. Many of the environmental concerns we face are, at least in part, a result of our economic activities and our economic system. For example, deforestation and the loss of the rich biodiversity associated with tropical rainforests, is driven by the market for timber or for products that can be grown on the cleared land such as beef or palm oil. Closer to home, seabird populations in the Firth of Forth are affected by the decline in sandeels due to industrial scale fishing. The international trade in these products is driven by the search for short term profit and made viable by the failure of the market to take account of ‘externalities’. The large swathes of conifer plantation forestry in Scotland, which are ecologically poor and involved the drainage of large areas of peatland, was in part driven by tax incentives in the 1980s to encourage investment in forestry as part of a government strategy to increase home-grown timber.

Economic drivers come in many forms and our economic system has many aspects to it that are of interest. For the purpose of this paper, these will be explored in six sections. First, there are implicit features of our market economy that are of interest to the environment, such as its quest for growth. Second, there are international institutions with roles in the global economy. Third, are general economic policies and instruments that are designed to maintain or enhance our economic system, such as monetary policy. Fourth, there are economic instruments or forms of market regulation applied to other policy areas, such as the use of agricultural subsidies in the CAP. Fifth, there are geographical area based economic strategies, such as the Scottish Economic Strategy. Lastly, there are market based environmental policy instruments which have been developed to reduce environmental externalities and correct market failures.

**2. Economic Policies and the Environment**

**2.1 Market based economies and neo-liberalism**

Since the 1980s, successive elected governments in the UK, US and most western democracies have been pursuing a form of capitalism known as neoliberalism. There has been a trend towards freeing up economies, reducing public expenditure, deregulation and privatisation. Multilateral organisations governed by the governments of these countries, such as the IMF, have aided the spread of neoliberalism by making financial assistance conditional on structural adjustment programmes.

There are a number of features of our economic system which are particularly pertinent to the environmental such as the in-built quest for growth, the externalisation of many social and environment costs, the role of money supply and credit creation, and short-termism. Our economic model needs economic growth to maintain full employment due to increases in efficiencies of production. For this to be compatible with sustainability requires a decoupling of resource use from growth. There are those who believe that technology will enable us to achieve this, but others who, based on projected population increases and the development of ‘developing’ countries, argue that economic growth can not be sustainable. One of the most damaging features of our market based system is the failure of the market to take account of the many environmental goods and services which are free. Because they are not traded through the market, they are not factored into the price of commodities, changing the viability of products and production practices. Our system has also been increasingly driven by money supply and credit creation which have become key drivers of growth and bubbles. The interest that credit earns becomes an incentive to create credit and search for investments. Short-termism is driven by pressure on investors and fund managers to maximise current performance and executives’ fiduciary duty under the Companies Act (2006) which obliges them to ‘promote success of the company for the benefit of its members’, leading to a preoccupation with share prices and quarterly targets. The focus on short time horizons tends to detract attention from capital assets, including natural resources, and the environment.

There are a number of market based solutions to environmental problems. Specific policies and mechanisms are mentioned in section 2.6, but worth a mention here is the move towards the ‘commodification’ of nature whereby attempts are being made to quantify different aspects of the environment in order that market failures can be corrected. There are potential benefits from these developments but also significant challenges. To name a few: much is unknown about environmental science, many aspects of the environment are extremely difficult to quantify reliably, and different aspects of the environment are not substitutable for each other. Despite these and other challenges, several conservation charities see these developments as a potential way to reverse severe degradation of our ecosystems.

**2.2 International economic institutions**

As well as national governments, there are a number of international institutions with roles in the global economy. The **International Monetary Fund** (IMF) is a specialized agency of the United Nations which promotes international monetary cooperation and exchange rate stability, facilitates the balanced growth of international trade, and provides resources to help members in balance of payments difficulties[[1]](#footnote-2). Its members (currently 188 countries) are represented through a quota system broadly based on their relative size in the global economy.

Whilst the IMF's focus is mainly on macroeconomics and financial sector issues, the **World Bank[[2]](#footnote-3)** is concerned with longer-term development and poverty reduction. Its loans finance infrastructure projects, the reform of particular sectors of the economy, and broader structural reforms.

The **G20[[3]](#footnote-4)** (19 of the largest advanced and fastest emerging economies, plus the European Union), is a forum for international economic cooperation and decision-making. It started in 1999 as a meeting of Finance Ministers and Central Bank Governors in the aftermath of the Asian financial crisis. In 2008, the first G20 Leaders Summit was held, and the group played a key role in responding to the global financial crisis. Meetings are held to discuss ways to strengthen the global economy, reform international financial institutions, improve financial regulation and implement the key economic reforms that are needed in each member economy. The G20 has a number of official engagement groups, including C-20 (civil-society 20). The **Financial Stability Board** was established by G20 leaders following the onset of the global financial crisis, and coordinates the work of national financial authorities and international standard-setting bodies to develop and promote effective regulatory, supervisory and other financial sector policies.

The **OECD[[4]](#footnote-5)** promotes policies that enhance the economic and social well-being of people around the world. It works with governments to understand what drives economic, social and environmental change, with a focus on analysing and comparing data to predict future trends.

The **World Trade Organisation[[5]](#footnote-6)** (WTO) is a forum for governments to negotiate trade agreements and settle trade disputes and operates a system of trade rules. Most of the WTO’s current work comes from the 1986–94 negotiations, the Uruguay Round, and earlier negotiations under the General Agreement on Tariffs and Trade (GATT). The WTO is currently the host to new negotiations, under the ‘Doha Development Agenda’ launched in 2001. Trade is discussed further in section 2.34.

The **European Union** (**EU**) is a politico-economic union of 28 member states. EU policies aim to ensure the free movement of people, goods, services, and capital;enact legislation in justice and home affairs, and maintain common policies on trade,agriculture,fisheries, and regional development.It has developed a single market through a standardised system of laws that apply in all member states. The monetary union was established in 1999 and came into full force in 2002 with 18 member states using the euro as their legal tender.

**2.3 General economic policies**

There are a range of economic policies and mechanisms designed to maintain and enhance our economic system:

* Monetary policy relating to money supply and interest rates;
* Fiscal policy covering government spending and taxation;
* Financial sector and investment policies;
* Trade policies such as tariffs and trade agreements;
* Accounting policies.

**2.31 Monetary policy**

Monetary policy involves altering the base interest rates or altering the amount of money in the economy through quantitative easing and is carried out by the Bank of England’s Monetary Policy Committee. Interest rates affect aggregate demand in the economy which in turn affects inflation (and vice versa). It is one of a number of tools used to increase demand and consumer spending as well as managing credit. Quantitative easing is used to stimulate the economy. In recent rounds of quantitative easing the Bank of England has bought government bonds from pension funds or insurers. Green quantitative easing is theoretically possible whereby the Bank of England purchases bonds from a body such as the Green Investment Bank which could use the money to provide cheap loans for, or invest in, environmental projects.

**2.32 Fiscal policy**

Fiscal policy is the deliberate alteration of government spending or taxation to help achieve desirable macro-economic objectives by changing the level and composition of aggregate demand, for example:

* To supply goods and services that the private sector fails to provide, such as defence, roads and bridges; hospitals and schools; and welfare payments and benefits;
* To achieve supply-side improvements in the macro-economy, such as spending on education and training to improve labour productivity;
* To inject extra spending into the macro-economy, to increase aggregate demand and economic activity;
* To subsidise industries that may need financial support which would not be available from the private sector;
* To help redistribute income and achieve more equity.

In Scotland fiscal policy is divided by the Scottish and UK governments. The flexibility of the Scottish government is hampered by ‘gearing’, whereby a high proportion of the tax revenue is raised by Westminster. If the Scottish Government or local administrations require an increase in revenue, a disproportionate increase in local taxation is needed to make up the budget. This could be tackled through redressing this balance, with Scotland having more revenue generating powers.

How investment and disinvestment decisions are made influence the areas of the economy that expand or contract. The UK investment plan can be found at <https://www.gov.uk/government/policies/spending-taxpayers-money-responsibly> and the Scottish plan at <http://www.scotland.gov.uk/Resource/0044/00446078.pdf> .

After the financial crisis of 2008, there was a call for a ‘Green New Deal’ – if the public sector was going to spend money to reinvigorate the economy it should invest in new technologies to help us address the environmental challenges we face. In 2012, the UK established the UK Green Investment Bank, the first of its kind. It is capitalised with public funds and backs green projects on commercial terms. It has invested in 31 projects (as of July 2014) in energy efficiency, waste and bioenergy, and offshore wind. Proponents of the Green New Deal in the UK have been largely disappointed and are renewing their call for a low-carbon makeover of the economy, creating good jobs and energy security.

Taxation in the UK is very complex, with many different taxes and exemptions. There are a number of ‘environmental taxes’ helping to address market failures, which will be discussed in section 2.6. Other tax regimes are less beneficial to the environment. Tax exemptions such as agricultural property relief from inheritance tax, exemption of agricultural and sporting land from business rates plus tax breaks available for land of historic or scientific interest has inflated the value of land and affected patterns of land ownership in Scotland. It has tended to concentrate land in a small proportion of the population and make it difficult for community groups to purchase land, frustrating the aims of other Government policies. Other examples of taxes that are harmful to the environment are tax concessions for oil and gas production and the fuel duty exemption from which airlines benefit.

**2.33 Financial sector and investment policies**

Finance and investment is a key part of market economies, allowing firms to pay for maintenance, improvements and development. As a result of the 2008 financial crisis, there has been increased regulation of financial services and related policies. The Independent Commission on Banking was set up and the Financial Services (Banking Reform) Act 2013 passed to make banks more resilient and to protect the deposits of individuals and small businesses. Despite the 2008 crisis, the overriding ethos of the investment industry continues to be to seek short-term gain and follow market signals. Credit ratings are given to countries and businesses based on a judgment of lending risk, generally associated with the strength of the economy. As long as the market externalises environmental and social costs, signals about economic strength can be flawed and, as a consequence, investments can follow unsustainable patterns. The investment in oil and gas exploration is an example of investors continuing to finance activities which are known to be unsustainable, will result in emissions targets being breached and potentially lead to drastic climate change. This has the potential to create a ‘carbon bubble’.

**2.34 Trade policies**

Many trade policies stem from the General Agreement on Tariffs and Trade (GATT) which is a multilateral agreement regulating international trade and calling for a reduction in tariffs and other trade barriers. There has been very little progress in concrete agreements due to the complexity of negotiations and competing interests and the WTO Doha development round has been stalled since 2001. Despite this, there is a general movement to liberalise trade and Scotland is particularly affected by the EU Single Market and EU competition policy. Also, the bilateral Transatlantic Trade and Investment Partnership (TTIP) is currently being negotiated by the EU and US, which would further open up trade between the US and Europe.

Opening up of trade tends to increase international competition and lead to countries focusing on sectors in which they are most ‘efficient’. Environmental implications of this vary between countries and sectors but it has generally lead to a further industrialization of agriculture, a loss of diversity and an increase in power of corporations. Many of the adverse social affects have been experienced by developing countries. Additionally, it invariably leads to an increase in the transportation of goods with associated environmental implications.

**2.35 Accounting policies**

There is increasing interest in accounting that goes ‘beyond GDP’. This is covered in more detail in the Flourishing Scotland paper, *Briefing on NPF/Scotland Performs and related areas[[6]](#footnote-7).*

The System of National Accounts (SNA) is the internationally agreed standard set of recommendations on how to compile measures of economic activity. The SNA describes a coherent, consistent and integrated set of macroeconomic accounts in the context of a set of internationally agreed concepts, definitions and accounting rules. The System of Environmental-Economic Accounting (SEEA) follows a similar accounting structure, expanded to produce internationally comparable statistics on the environment and its relationship with the economy. A revised SEEA was adopted by the UN in 2012 as an international standard to be used throughout the world. Further developments on a conceptual framework to include ecosystem accounting are being coordinated by the UN Statistics Division, the European Environment Agency and the World Bank[[7]](#footnote-8).

The European Strategy for Environmental Accounts (ESEA) aims to ensure data quality and harmonisation. Member states already deliver data on three existing modules: emissions, environmental taxes and material flows. Three new modules will become obligatory in 2017 - environmental protection expenditure accounts, environmental goods and services accounts, and physical energy flow accounts.

In Scotland, the Scottish National Accounts Project (SNAP) is aiming to improve the quality of economic statistics. Beyond that Scotland has embarked on a much broader accounting policy through Scotland Performs offering accountability based on national priorities set out in the National Performance Framework.

Natural capital accounting and the assessment of ecosystem services are developing areas of science and policy which are beginning to help nations, regions or businesses to track their impact on the natural environment.

**2.4 CAP, CFP and energy policy: Economic instruments and market regulations**

A range of economic instruments and regulations are used in various policy areas. Agriculture is heavily influenced by the Common Agricultural Policy and its subsidies. In 2012 – 2013 Scottish farmers received on average £38,000 in subsidies from the CAP[[8]](#footnote-9), contributing significantly to their overall income. As such the CAP, and its fiscal instruments, is a powerful policy in terms of dictating agricultural business decisions and how land is used. In recent years, reform of the CAP has lead to a significant decoupling of subsidies from production and some support for diversification into farm based enterprises other than traditional agriculture. Support is contingent on basic good practice (including environmental) and there is limited funding available for management which enhances biodiversity, or provides other public goods and services, such as path development or flood management.

Although, like agriculture, fishing is unimportant in terms of economic output in the EU, policies governing it have significant environmental implications. The Common Fisheries Policy regulates the market, setting quotas on the quantities of each species that each member state can land. The latest reforms, which came into effect in Jan 2014, include a gradual ban in discarding catch that is in excess of quota, a legally binding agreement to fishing at sustainable levels and an introduction of decentralized decision making.

Energy policy is reserved to the UK, although the Scottish Government has considerable influence through direct investments and the planning system. The UK Energy Act (2011) has three principal objectives: tackling barriers to investment in energy efficiency; enhancing energy security; and enabling investment in low carbon energy supplies. The main fiscal tools are Renewables Obligations Certificates (ROCs) and Contracts for Difference (CfDs). ROCs place obligations on licensed electricity producers to produce an increasing proportion of their electricity from renewable sources. ROCs are currently being superseded by CfDs which are effectively a contract in advance, guaranteeing a fixed return for the supply of green electricity. Regulatory mechanisms also affect the economics of the renewable energy industry. Ofgem sets the price paid for electricity produced based on proximity to demand, meaning that the more remote producers have relatively higher costs.

These fiscal incentives have made renewable electricity production attractive and lead to a surge of investment in wind farms and other forms of renewable energy production. Although a transition to renewable energy is desirable, the expansion of this infrastructure can have negative environmental impacts through affects on habitats and landscapes. Potential for energy production is high in some of the remoter areas, but these are often valuable ecologically and a balance has to be struck. The bulk of development has been by ‘the big 6’ energy companies and this has generally benefited them and the big landowners who tend to have suitable sites for development. Lastly, there has been far too little attempt to improve energy efficiency and reduce demand, alongside the increase in renewables capacity.

It should also be noted that there are also tax concessions for oil and gas production in the UK which have obvious environmental consequences.

**2.5 Scottish Economic Strategy**

The Scottish Government has a cross-cutting economic strategy, linked to its Purpose and Targets in Scotland Performs. The Economic Strategy (2011) is closely related to Europe 2020 a summary of which can be found in Annex 2. It sets out how the government will deliver on its purpose ‘*to focus the Government and public services on creating a more successful country, with opportunities for all of Scotland to flourish, through increasing sustainable economic growth’*. It gives a ‘*clear priority to accelerating economic recovery, …... We will focus our actions on six Strategic Priorities which will drive sustainable economic growth and develop a more resilient and adaptable economy*’.[[9]](#footnote-10)

The six strategic priorities:

* **Supporting business environment** - focusing on growth companies, growth markets and growth sectors. Actions include establishing enterprise areas, advice and support, promoting exports, small business bonus scheme, strengthening innovation and commercialisation. Identified growth areas are: energy, food and drink, life sciences, tourism, financial and business services, and universities and the creative industries.
* **Transition to a low carbon economy** - to reflect the opportunity to secure investment and jobs from this growing sector. Actions include a National Renewables Infrastructure Fund, positioning Scotland as a world leader in low carbon activities, and investing in improving the quality of housing stock.
* **Learning skills and wellbeing** - acknowledging the need for a skilled, educated and creative workforce to create a competitive and resilient economy. Actions include reforming post 16 learning, modern day apprenticeships, and investment in higher education.
* **Infrastructure development and place** - to harness the strength of cities, towns and rural areas and promote the digital economy.
* **Effective government** - to coordinate and align the public sector to maximise Scotland’s potential. Actions include increasing the public sector’s direct contribution to the economy through smart use of public procurement, ensuring public services remain fit for purpose, and improving the efficiency of the public sector.
* **Equity** - social, regional and inter-generational equity to fully maximise the nation’s potential. Actions include a focus on preventative spend, maintaining household incomes through freezing council taxes and free prescriptions, key commitments to health spending and tuition fees, and supporting the development of an enterprising third sector.

Each of these priorities is described in terms of how it contributes to the *Purpose Targets*: sustainable economic growth, productivity (increase competitiveness and resource efficiency), participation (in the labour market), population (stimulate population growth), solidarity (reduce inequalities across individuals), cohesion (reduce disparity between regions in Scotland) and sustainability (enhance the environment and reduce emissions). Although the Purpose Targets include resource efficiency and reduction of emissions, the main thrust of the Strategy is to increase growth with several references to ‘faster’ growth (compared to the previous pre-recession 2007 Strategy).

The new National Planning Framework 3 (NPF3)[[10]](#footnote-11), described as the ‘*spatial expression of the Government’s economic strategy’,* is the mechanism through which some of this strategy is implemented with a focus on supporting sustainable economic growth and the transition to a low carbon economy. Together with the Scottish Planning Policy[[11]](#footnote-12), it will guide development plans and planning departments and influence future budget allocations.

Scotland’s natural environment is recognized as a valuable asset in the economic strategy and planning framework: ‘*Scotland’s rich and diverse natural environment is a national asset and a source of significant international competitive advantage. We trade on its quality so its continuing health and improvement is vital to sustainable economic growth. Many of Scotland’s growth sectors such as tourism, and food and drink depend on high quality air, land and water*.’[[12]](#footnote-13)

**2.6 Environmental policy instruments**

As well as regulations and controls to protect our environment, there are a range of policy instruments. Environmental taxes or charges on products or processes and trading systems are generally known as market-based instruments (MBIs) and are designed to reduce externalities. MBIs use [markets](http://en.wikipedia.org/wiki/Market_%28economics%29), [price](http://en.wikipedia.org/wiki/Price), and other [economic](http://en.wikipedia.org/wiki/Economy) variables to provide [incentives](http://en.wikipedia.org/wiki/Economic_incentive) for firms and consumers to opt for greener production or products. MBIs seek to address [market failure](http://en.wikipedia.org/wiki/Market_failure)s by incorporating the external cost (to the environment or society) of production or consumption activities.

Examples of environmental taxes are widespread. The Landfill Tax, fuel taxes and taxes on plastic bags are a few examples. There are two main types of trading systems which have generally been used for emissions: “cap-and-trade systems” and “baseline-and-credit systems”. In a cap-and-trade system, an upper limit on emissions is fixed, and emission permits are either auctioned or distributed for free according specific criteria. Under a baseline-and-credit system, there is no fixed limit on emissions, but polluters that reduce their emissions by more than their obligations can earn ‘credits’ that they sell on to others who need them in order to comply with regulations they are subject to. The EU emissions trading system for CO2 is a cap-and-trade system.

Another policy instrument, currently the subject of widespread interest, is offsetting. In the UK this is only formalised for carbon off-setting under the Woodland Carbon Code, whereby emitted carbon can be offset against the planting of trees. There are also examples of voluntary offsetting, whereby developers have compensated for the environmental degradation they have caused by environmental enhancement elsewhere (for example wind farms developments in the Scottish Borders). There is interest in England in including offsetting in the planning system, under which unavoidable environmental harm would have to be offset.

Also worth mentioning here, is the concept of the circular economy which is receiving renewed interest. A circular economy is an alternative model to a traditional linear economy (make, use, dispose) in which resources are kept in use for as long as possible, the maximum value is extracted from them whilst in use, and then products and materials are recovered from them at the end of each service life. A circular economy reduces waste and drives greater resource productivity. The European Commission has adopted the communication: ‘*Towards a circular economy: a zero waste programme for Europe’* to establish a shared EU framework to promote the circular economy.[[13]](#footnote-14)

**3. Engagement of LINK taskforces with economic policy**

Details of the engagement of eight LINK taskforces with different areas of economic policy can be found in Annex 3. It can be summarised as follows. LINK is engaging with financial markets and investment policies through the Economics TF’s work on the carbon bubble. In the area of accounting, LINK is involved in the developing areas of ecosystem services assessment and natural capital accounting, and in the reform of the National Performance Framework. Considerable resources of LINK and its members are put towards influencing the CAP and SRDP and the associated subsidy regimes. LINK TFs have campaigned against the wording of the Government Purpose and focus on sustainable economic growth, and have tried to engage the government in discussion about the meaning and ambiguity of the phrase. Several TFs keep track of proposed developments which potentially impact on the environment, such as wind farms and fish farms, and, whilst recognising the need to shift to a low carbon economy and support rural enterprises, campaign to minimise the environmental harm. Taskforces engage with other infrastructure projects through input to planning policy and guidance, including advocating for a green infrastructure. There are also examples of taskforces tapping into the policies on skills, wellbeing and equity, using them to highlight areas of concern. For example, emphasising the contribution that access to woodlands make to wellbeing; highlighting the lack of skills in taxonomy; and stressing that it is often the poorest that bear the greatest burden of poor environmental quality.

There was little indication from convenors as to which areas of economic policy they feel are the most important. To a certain extent, this may be reflected by those on which they are campaigning, although it is also likely to be affected by historical factors, experience, capacity and knowledge within the TFs.

It is hoped that further discussions with convenors and taskforces will tease out priorities.

**4. Environmental impact of economic policies and the level of debate**

Taking each policy area in turn. Monetary policy probably comes low down the list in terms of its bearing on environmental concerns. There seems to be little discernable debate about its impact on consumerism and the environment.

Fiscal policy appears to have significant and specific ramifications for different aspects of the environment and is a powerful economic driver. Within LINK, groups campaigning on energy are informed on the fiscal drivers of energy policy although with no energy TF, there is probably less debate than there might otherwise be. Based on the information received from TFs, levels of debate about other areas of fiscal policy appears to be low.

Investment policies and finance have significant bearings on environmental concerns. There has been recent interest in this area amongst LINK and a forthcoming report on the carbon bubble will increase knowledge and debate.

Trade policies have probably had a considerable environmental impact. There are campaigns against the Transatlantic Trade and Investment Partnership, although not specifically involving LINK members [[14]](#footnote-15).

Accounting policies have a significant impact on the environment and are receiving considerable attention internationally and in Scotland. There is interest in this area, in particular in the development of natural capital accounting and assessments of ecosystem services, amongst environmental organisations, although the level of debate is often hampered by lack of knowledge.

Other sector specific policies such as CAP, CFP and energy policy and their associated fiscal drivers have a significant environmental impact and are probably where much of the debate and knowledge amongst LINK members is found.

The Scottish Economic Strategy is seen as a ‘high level’ policy with little connection to mechanisms and drivers that affect LINK concerns. However, with the recent publishing of the NPF3 and Planning Policy, this connection is made clear. There is a high level of knowledge and debate about planning issues, which closely relates to the Economic Strategy.

**5. Suggestions for LINK activities**

At this stage, with limited input from taskforces, it is difficult to make concrete suggestions for LINK activities other than using this report as a basis for further discussions to tease out possible areas of work.

The following are some suggestions of areas of work for discussion. The focus on accounting is important as it has relevance across sectors and the potential for widespread impact. Better national / regional and business accounting can redirect activities to reflect wellbeing and environmental integrity.

Continued engagement with the developing science of ecosystem services assessments, and the related area of natural capital accounting, is important and to be aware of limitations and appropriate uses. They have useful applications in accounting, in campaigning to demonstrate the value of the environment in competing interests, and in informing subsidy/taxation levels. Natural capital accounting (or other improved accounting) can feed into credit rating and affect investment patterns. This dovetails well with a continued engagement in investment policy through follow up activities to the Carbon Bubble report, as planned.

Highlighting some of the perverse fiscal incentives relating to land might be an area for LINK activity. A campaign for public money to relate to the use of land rather than purely the holding would be worth investigating.

**ANNEX 1: Specification**

Short spec for Briefing on Importance of Economic Policy Issues for LINK and its members

Purpose:

To provide LINK, the ETF and LINK members with an assessment of the current and potential engagement with key issues of economic policy.

The briefing should start with an overview of the current level of engagement of LINK taskforces with economic policy including a summary of those issues which are seen at present as most important by them. Separately there should be set out a resume of those questions of economic policy which might bear most on environmental concerns and comments on the current state of knowledge and debate within the environmental movement. Drawing on both it should make some suggestions about priorities for LINK activities.

**ANNEX 2: Europe 2020**

‘*Europe 2020 is the European Union’s ten-year growth and jobs strategy that was launched in 2010. It is about more than just overcoming the crisis from which our economies are now gradually recovering. It is also about addressing the shortcomings of our growth model and creating the conditions for a smart, sustainable and inclusive growth*.’[[15]](#footnote-16)

Five headline targets[[16]](#footnote-17) have been set for the EU to achieve by the end of 2020, covering employment; research and development; climate/energy; education; social inclusion and poverty reduction.

|  |  |
| --- | --- |
| Area | Target |
| Employment | - 75% of the 20-64 year-olds to be employed |
| R&D   | - 3% of the EU's GDP to be invested in R&D |
| Climate change and energy sustainability  | - greenhouse gas emissions 20% (or even 30%, if the conditions are right) lower than 1990 - 20% of energy from renewables - 20% increase in energy efficiency  |
| Education | - Reducing the rates of early school leaving below 10% - at least 40% of 30-34–year-olds completing third level education  |
| Fighting poverty and social exclusion  | - at least 20 million fewer people in or at risk of poverty and social exclusion |

The strategy objectives are supported by seven ‘flagship initiatives’[[17]](#footnote-18), identified to boost growth and jobs, and under which the EU and national authorities coordinate their efforts:

* Digital agenda for Europe
* Innovation Union
* Youth on the move
* Resource-efficient Europe
* An industrialisation policy for the globalisation era
* Agenda for new skills and jobs
* European platform against poverty.

All Member states have committed to achieving Europe 2020 targets and have translated them into national policies. The European Commission has set up a yearly cycle called the European Semester whereby each year the European Commission undertakes a detailed analysis of EU Member States' programmes of economic and structural reforms and provides them with recommendations for the next 12-18 months. The Commission issued six recommendations to the United Kingdom[[18]](#footnote-19) in 2014 to help it improve its economic performance in the areas of public finances, housing market, labour market, education and training, welfare reform and child care, financial sector and network industries.

**ANNEX 3: LINK taskforces and economic policy**

|  |  |
| --- | --- |
| **LINK taskforce** | **Area of economic activity** |
| Agriculture TF | Agriculture  |
| Freshwater TF | Drinking water, irrigation for agriculture, whisky industry, hydro power, flood regulation, recreational fishing |
| Land Group | Activities that affect the ‘sustainable use of the land’ |
| Landscape TF | Energy/renewables, forestry, agriculture, tourism/recreation, fish-farming, development |
| Wildllife TF | Agriculture, forestry, recreation/tourism, development |
| Woodland TF | Forestry, tourism/recreation |
| Economic TF | Accounting, investment,  |
| Planning TF | Any ‘development’ activity that could affect the environment, primarily that regulated by the statutory planning system and primarily terrestrial activity, marine development mainly being covered by the MTF. Includes, for example, housing, commercial, roads and other infrastructure, energy generation and distribution. |
| (other TFs yet to respond) |  |
|  |  |

Engagement of LINK with areas of economic policy

In this section economic policy areas will again be considered in turn. Under each policy area the following will be addressed:

* Where economic policy conflicts with LINK taskforce concerns and is being campaigned against;
* Where synergy could be found between economic policy and LINK taskforce concerns;
* Comments on potential areas where TFs could engage.

**a) Monetary**

**b) Fiscal**

Woodland TF: The tax relief available for forestry has not been actively discussed by the LINK Woodland TF recently but may become an issue in post-September Scottish political agenda.

**c)** **Financial markets and investment policies**

Economics TF: The Economics TF has commissioned a report on the ‘carbon bubble’ and potential risks of over-investment in oil/gas sectors for Scotland.

**d) Trade**

**e)** **Accounting**

Woodland TF: The Woodland TF are taking an interest in the new attempts to measure ecosystem health and natural capital accounting since the Carbon Code has already established a number of these principles within the woodland sector.

Economics TF: The Economics TF is involved in reform of the National Performance Framework seeking the inclusion of indicators which better reflect sustainable development and the environment and for it to be properly used by Government. The TF is also engaging with the Forum for Natural Capital and the development of the science of ecosystem services.

Potential areas: Businesses, including farm businesses, undertaking natural capital accounting as part of their accounts. The use of ecosystem service assessments to better inform subsidy levels for high nature farming/other environmental management. True costs of food production.

**f) CAP, CFP, Energy Policy**

Agricultural TF: The Common Agricultural Policy is the main interest of the agricultural TF. The CAP has a large influence on the business decisions taken by farmers and, as such, land use. The feeling in the TF is that the Government’s main concern is to satisfy farmer interests (largely through the NFUS), but with only limited expectation of economic growth from the sector.

Wildlife and Agricultural TFs: have been working on defining target areas for the SRDP agri-environment climate scheme in order to maximise biodiversity benefits, through participation in the Biodiversity Targeting Working Group. Based on the ranges of selected species and habitats from the Scottish Biodiversity List, the group is developing recommendations for target areas in which each agri-environment-climate option should be available in order to deliver the greatest benefit to biodiversity.

Woodland TF: submitted comments to the Scottish Government on the draft CAP and SRDP programmes for 2014-2020, focusing mainly on the Forestry Grants elements of SRDP, but also on the agri-environment and greening issues in Pillar 1.

**g)** **Scottish Government’s economic strategy**

**i) Purpose:**

Woodland TF, Economic TF, Planning TF: Several of the LINK taskforces have campaigned against the overall Purpose statement of the Strategy, repeated in the NPF3 – ‘….. *to drive sustainable economic growth*’. LINK promotes *sustainable development* in the place of sustainable economic growth arguing that sustainable economic growth is ambiguous.

**ii) Supporting business environment**

Planning TF: the Planning TF is concerned with terrestrial built developments that affect the environment.

Landscape TF: engages with developers and plans which affect the landscape. Fish farming is especially relevant as it is promoted under the Economic Strategy.

Woodland TF: hopes that the Scottish Government’s ambitious targets to expand the extent of Scotland’s woodland - and especially Scotland’s native woodland – would lead to an corollary expansion in the related woodland tourism sector. However, at the moment there is still more focus on supporting the large existing commercial timber industry than on smaller tourism related woodland businesses. The LINK Woodland TF membership includes organisations with landholdings that contribute significantly to Scottish tourism, such as the RSPB.

**iii) Low carbon economy**

Planning TF: has been involved in campaigning on these developments. There have been some sites where there have been on site environmental benefits through the restoration of habitats for example, but this has not been as effective as it could have been.

Landscape TF: has campaigned against, or for modifications to, large onshore windfarms which threaten the landscape. Some of these developments are now threatening more marginal areas such as peatlands in the Flow Country or wild land at Stonelairg. Taskforces would prefer small scale renewables.

Woodland TF: promotes the potential contribution that Scotland’s woodlands have to a low carbon economy, both through increased carbon sequestration and as a local sustainable building and biomass energy resource.

**iv) Learning, skills and wellbeing**

Woodland TF: The invaluable contributions of woodlands to national wellbeing are well documented (<http://www.forestry.gov.uk/fr/INFD-5Z5B95>) as are the benefits of using them as a forum for better learning (<http://www.forestry.gov.uk/fr/infd-5z3jvz>)

The LINK Woodland TF supports both agendas and represents a number of bodies actively engaged in promoting the health and educational benefits of woodland and forestry, such as the Woodland Trust.

Wildlife TF: Through engaging with current biodiversity structures and representation on the biodiversity Delivery and Monitoring Group, the Wildlife TF is urging for programmes to skill up younger generations and older volunteers to fill the current taxonomic gaps (which are barriers to implementing effective conservation), and to build future taxonomic expertise to ensure long term conservation.

**v) Infrastructure**

Planning TF, Landscape TF: Key infrastructure developments are tracked and campaigned on by several taskforces through input to documents like the National Planning Framework and Scottish Planning Policy.

Wildlife TF, Planning TF, Woodland TF: LINK taskforces campaigned for a National Ecological Network to be included as a national development in the National Planning Framework 3. With ecosystem scale conservation in vogue, such a network would represent the best building block.

Planning TF: The Planning Task Force have been keen to ensure that the protection, enhancement and creation of ‘green’ infrastructure is considered as being at least as important as the creation of traditional built infrastructure. In order to create the sort of places in Scotland where people and businesses want to live, work and invest, high quality green infrastructure will be essential. For this reason the TF campaigned (successfully) for a Central Scotland Green Network to be included in NPF2 as a National Development (this has been retained in NPF3) and pushed for a widened NEN for Scotland in NPF3. Although the NEN didn’t achieve national development status, there are strong positive references to creation of a NEN. NPF3 also includes other environmentally positive national developments that will create nationally important infrastructure:

* The Metropiltan Glasgow Strategic Drainage Partnership
* A National Walking and Cycling Network
* Central Scotland Green Network

In addition, some of the other national developments could have positive aspects, as well as result in environmental risk – such a high speed rail, carbon capture and storage and pumped storage hydro.

**vi) Effective government.**

Governance TF: campaigned against the requirements set out in the Regulatory Reform Act for public agencies to pursue economic growth.

Potential: Local authority co-operation with regional Forestry Commission conservancies is not always successful, and promoting better partnership working there should be a key priority, not least for making the process for planning applications which affect woodland more efficient and faster.

The Scottish budget process and lack of scrutiny about sustainability issues might be another potential focus. The Scottish Government does not have an audit office and the size of the parliament limits its ability to scrutinize. It needs to take on more special advisors to get balanced advice on budget scrutiny.

**vii) Equity**

LINK general: It tends to be the poorest and disenfranchised in society who bare the greatest burden of poor environmental quality, both in Central Scotland (in part being addressed by the CSGN) and in rural areas and across generations in terms of climate change and erosion of the natural heritage. As such many of the LINK TF campaigns address equity.

Woodland TF: Given the variety of social and economic benefits of woodlands, equity of access remains a key issue, irrespective of background or postcode. The Woodland Trust’s regular “Space for People” survey breaks down public access to varying sizes of woodland by local authority to quantify which Councils are best serving their voters.

Potential: The lack of equality in the current land ownership system, whereby few landowners make all the decisions over huge swathes of land, is relevant to the LINK Land TF since the current system does not always lead to sustainable land use practices.

1. http://www.imf.org/external/about.htm [↑](#footnote-ref-2)
2. http://www.worldbank.org/ [↑](#footnote-ref-3)
3. https://www.g20.org/ [↑](#footnote-ref-4)
4. http://www.oecd.org/ [↑](#footnote-ref-5)
5. http://www.wto.org/ [↑](#footnote-ref-6)
6. [↑](#footnote-ref-7)
7. http://unstats.un.org/unsd/envaccounting/seearev/ [↑](#footnote-ref-8)
8. http://www.scotland.gov.uk/Topics/Statistics/Browse/Agriculture-Fisheries/Graphics [↑](#footnote-ref-9)
9. http://www.scotland.gov.uk/Topics/Economy/EconomicStrategy [↑](#footnote-ref-10)
10. http://www.scotland.gov.uk/Topics/Built-Environment/planning/NPF3-SPP-Review/NPF3 [↑](#footnote-ref-11)
11. http://www.scotland.gov.uk/Publications/2014/06/5823 [↑](#footnote-ref-12)
12. Government Economic Strategy, pg 55 [↑](#footnote-ref-13)
13. http://ec.europa.eu/environment/circular-economy/ [↑](#footnote-ref-14)
14. http://www.wdm.org.uk/sites/default/files/TTIP%20briefing.pdf [↑](#footnote-ref-15)
15. http://ec.europa.eu/europe2020/europe-2020-in-a-nutshell/index\_en.htm [↑](#footnote-ref-16)
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18. http://ec.europa.eu/europe2020/pdf/csr2014/nrp2014\_uk\_en.pdf [↑](#footnote-ref-19)