

Transcript: Q&A

The Economics of Natural Capital

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David Shukman

I'm going to take advantage as chair: for some years, there has been a process that has tried to apply prices to certain natural features. The TEEB process – putting a price on a mangrove swamp; if you tear it up and replace it with a shrimp farm, what is the cost in terms of losing flood defence? If you put HS2 through an ancient woodland, trying to put a price on that woodland. You're quite clear in the book that you're quite critical of trying to be too exact about coming up with a number. How difficult is it? In many ways, in the public debate and political arena, people want exact numbers.

Dieter Helm

This is a highly contentious territory and there's lots of misinformation in this frame. There's one group of people who say: this is all hopeless, because nature's priceless. George Monbiot holds that view, in particular. My response to that is: you've missed the point, you haven't read the book. We're not interested in what a particular piece of nature is worth in some deep sense. It's not some kind of neo-liberal conspiracy to say bees are worth the following, etc. We're asking a very different question, which is unavoidable: if you have limited resources, how much resource should you devote to which bits of the natural environment to preserve and enhance them? Unless you want to argue that the whole of GDP should be applied to bees, you are forced back on the question: how much should we devote to trying to preserve them? The metrics in the book and more generally are about, well, which ones should you focus on? So those are the ones that are in danger of going through the thresholds. Then, in those territories, you have to make some kind of estimate.

I use an example too in the book, which I was very much involved in – some of you may remember and to some of you it may be ancient history: the extension of the M3 through Twyford Down. This was a huge controversy. Twyford Down is a chalk down just outside Winchester. It was stunningly beautiful. If you drive through that, it's still like a horrible scar in the landscape. Lots of people at the time thought we should value the down. I'm not the slightest bit interested in valuing the down. I'm interested: is the down worth more than the cost of preserving it? In this case, it was very straightforward. In money at the time, it would have cost £90 million to put a tunnel through that down, and that down would still be there today. I happen to have good reason for believing there was never a study done to estimate whether the down was worth more than £90 million, for the very good reason is it would have been worth more than £90 million and the Treasury would have had to spend it. That's the kind of analysis you want on it.

The TEEB point you raised – I think the TEEB project, good people trying to do good things, is pretty hopeless. I think that because trying to aggregate up the value of all the natural capital in the world to provide some huge aggregate number is so fraught with error, difficulty, etc., as to almost call the whole argument into disrepute. I recall one of the first days I was doing the Natural Capital Committee, Friends of the Earth turned up dressed as bees, to give me an invoice for the cost of bees. I realized immediately this was both a very important point they were making, and that the public do not understand when you say bees are worth the following, but they would understand if you said we need a half-million or a hundred-million-pound programme to improve and restore their habitats. So I think you have to be careful with numbers. It's always going to be rough and ready. But we are precisely wrong in trying to play the 'priceless' argument.

Question 1

A question about tropical rainforests. The last ten years or so, many of us have been working in the area of REDD-plus, this idea that the rich world pays tropical forest countries for the opportunity costs of not

deforesting their forests. Is this working? Is there a better way of doing this? Is there any other way of doing it? At the moment, I think the view is REDD-plus has worked in some instances – in Brazil arguably, as part of what the Brazilians have done – but it hasn't worked globally. Tropical forests are still being lost. I'd be interested to hear your views on that.

Dieter Helm

I agree with your final point. They're clearly still being lost. These are clearly extraordinarily important global hotspots. If you go back to my definitional problem at the beginning, if you're interested in the ecosystem component of this, there are some ecosystems around the world which are, dare I say, much more important than others, and tropical rainforests fit into that framework. Norman Myers identified 25 hotspots, I think. You can argue about it. But clearly there are things you need to focus on.

These ecosystems are clearly systems which are in danger of going to the threshold for the system themselves as well as the marginal components at the edge. We know, in addition – [indiscernible] Wilson's work, etc. – that area affects matter, and creating little islands of residual rainforest is not going to produce anything like the biodiversity value that we have. So the focus is there.

So what do we do about it? In a world where there are sovereign nations, you have to think about what we have to do to persuade them to preserve those things. There are some things we could stop doing, like buying crazy ethanol on the grounds that it's supposed to do something about climate change. In Brazil, ethanol from sugar cane is produced on a large scale. The ranches are pushed out of that land, they damage the rainforest further and you get both the damage done from trying to use the ethanol plus the damage to the rainforest. So if you stop doing silly things, but in addition to that it comes down to, can we pay them not to do the damage. REDD is one particular scheme.

Will these solve the problem? Probably not. We probably have to have a bigger deal to get these things done, in the same way just compensation won't solve the climate change point. But it's not going to do any harm. Even in the – is it the Ecuador or the Peru case, where there's the oil exploration? Ecuador. Even in that case, the fact that the issue is up there and there's alternatives available shines a spotlight on this more than it otherwise would have been. But an extraordinarily difficult problem, needs to engage international opinion in the same way that climate change is beginning to do. My fear is since we haven't achieved anything on climate change since 1990, as my *Carbon Crunch* book shows – the rate of emissions, apart from last year, is increasing through time from 1990 – are we going to wait another quarter of a century before the world gets serious enough about it. But on the other side of it, it doesn't stop you doing other things, whereas the climate change thing really is completely global. So only a partial answer, I'm afraid.

Question 2

What was the reaction to your committee's report and what impact do you think it will have, or has had, on government policy?

Dieter Helm

I should have said at the beginning that my comments up to this point have all been personal, but I'll try and answer from the committee's point of view.

If you follow what we've been doing in the committee, we produced annual reports, three reports, in a cumulative process, of which the last one was January. The first one was all about trying to get a handle on the problem. The second one was all about the metrics and the accounting, how to do the numbers. The third one was about how to make good the government's commitment to be the first generation to leave the natural environment in a better state than it found it. I took generation to be 25 years, and so the committee came up with the proposition that essentially we should have a 25-year restoration project for the UK. The committee started to flesh out one or two things that might fit in that.

That's out there, waiting for politicians to respond to. It just happened to come out in the shadow of a general election. Therefore, just happened to be the case that each of the three, what were then the main political parties, would have to say what they were going to do about it. As David pointed out, we're a time-limited committee, which I think is brilliant because there's a drop-dead date in which they have to do something. It might be to exterminate what you've got but this is a decision that has to be taken.

All three of the main political parties, in their manifesto, formally commit themselves to continuing the Natural Capital Committee and the restoration project, the 25-year plan. I think that the Lib Dems are slightly stronger in the sense they want full legislation, a nature bill, in their manifesto, than the Conservatives. But the Conservatives are absolutely committed to effectively what we've set out.

So we're now in the limbo bit, because we've got a six-month extension. For understandable reasons, you couldn't expect the government to respond to our report in January, in the shadow of elections. So we have an extension until September, to allow the government to respond. My committee are doing lots of interesting things in that period. But by the end of September, they then have to decide what to put in its place. That is a really interesting ongoing discussion. If you chair a committee, it's not your job to tell them what to do. It's your job to say: if that's what you want to do, Minister, if that's what your manifesto says, this is what you have to do. If you don't want to do this stuff, then either you've got to find some other way you're going to achieve the objective, when we can't think of any, or you should be honest and say, well, we said we were going to do it but actually we're not going to do it. I think that's quite a good place to be if you're chairing a committee and trying to take the argument forward.

Am I optimistic? Pretty optimistic. Not overwhelmingly. This is a political process, there are huge challenges out there. Let's face it, people aren't as engaged in this topic as they're engaged in climate change. But on the other hand, there is a really broad political consensus and, immodestly I would say, what I've tried to do in chairing the committee is to create that consensus, to make sure that all the parties are in the same place, which is the state of affairs at the moment.

David Shukman

I think I might just follow up your question, if I may. So just sketch out the timetable that would work best for you. What's the dream scenario? They respond in September? Is there one specific bit of policy that you would like to see emerging in the next 18 to 24 months, that would indicate to you good faith?

Dieter Helm

There are several bits to this. I'm a hopeless pragmatist – there are lots of ways of doing this. There's no perfect answer, but let me float up some thoughts on this topic.

The first and crucial thing is, do they actually want to do a restoration plan? Do they want to endorse the 25-year plan that we put forward in outline? I stress 'in outline' because we're a limited committee, six or

seven people, very little time or resources. We haven't filled in the detail of the plan but we've given some hints of some of the things it might contain.

If the answer to that is yes, then you have to put the plan together. You have to break it down into bite-sized chunks. You have to monitor and appraise what's going on. You have to formally report – my preference would be to formally report to parliament as to whether the aggregate natural capital is getting better or worse. That's a very important lever in a political world. It's like the Climate Change Committee has that role, which will come, I think, next week. They update to parliament. So if you're not doing what you said you're going to do, there's a formal process of doing that.

There's the bringing together of the large range of projects that are out there, that could be encapsulated in that plan. It's not for some Stalinist organization to say, you will do this, this and this. We've got huge numbers of people and organizations across the economy engaged in natural capital, from the National Trust to landowners. We've got all sorts of people in that frame. As a very important side of what we've been doing in the Natural Capital Committee, we've got real engagement with corporate accounting for natural capital. That is incredibly important. That's my biggest surprise in what we've done, just how powerful and interested in templates and formal methodologies companies and organizations have been.

You've got all that to bring together, so that follows from endorsing the plan. You've got to monitor it to make sure it's achieved, and off you go. But you need an organization to do that.

David Shukman

And someone to run it.

Dieter Helm

Well, I'm chairman for the first period. I care passionately about these things, but one of the other great advantages of anything that is time-limited, people can decide if they want other people to do stuff. I think that's very important in public policy.

Question 3

The fact that you mentioned going from very tiny open spaces right the way through to larger spaces, I just wanted to flag up and hear what your view is regarding – much of this open space is operated by local authorities. Ever since the 1970s, when we were back with 'plant a tree for '73', etc., there's been pressure on local authorities to do things. Now we're in an era where by default local authorities at this very moment, some that I work with, are actually reducing their budgets under government pressure. The Cinderella service will always be not the new dementia initiative but it will be the local authorities. I just wondered whether that ought to be factored in or in some way got onto the agenda.

Dieter Helm

Yes. This is a personal view, I want to stress this. I'll start it with an example. My wildlife trust has taken over most of Berkshire Council's nature reserves and natural environment areas, in a deal which involves some money to run this for a period of time but to bring it within our group of nature reserves. I generally think we ought to ask ourselves whether the public sector in the design of the state we currently have is the best place to run these assets.

I'll give you another example, and there's no criticism implied in this. In our nature reserve Chimney Meadow, which is down the road from where I live – the one I used for this example of the houses – next to it, we have a Natural England nature reserve. Ours is extremely well managed. We have volunteers, we have a labour force. It's free. The one next door, Natural England's budget has been starved, and you can see it.

So I really think we can ask a serious question. If you look at some of the National Trust assets, many of them are extremely well run because they have the resources to do it. Four million members, loads of retired people who want to do these kinds of things. So pragmatically, I think we want to ask whether local authorities continue to be the best owners and managers of these assets going forward, of some sorts. Green spaces inside cities, local community projects, have an enormous amount going for them. Think of some of the allotment movements, etc. Again, it's not clear who should run those things. But if you are, like me, hopelessly pragmatic, there ain't going to be public money for this stuff. I was very keen to spell out that the big revenue flows are not public money.

But at the micro level, there's not going to be local money either. So it really is in many cases a choice of using this extraordinarily powerful, what you might call third sector or whatever you like, of trusts, not-for-profit organizations, to take this forward. It drives me crazy when I engage in the wildlife trust, how do they come up into the RSPB and so on. The environmental movement at the local level is much bigger than the trade union movement in this country. Just think how many people are paying members of the National Trust. They're not all overlapping members. It's a huge political force and a huge reservoir of people with goodwill. It has enormous benefits for health and so on. We get kids out from schools, even if we get health and safety problems about what they can be allowed to do, educational staff. We've got offenders coming and doing work on building walkways and stuff like that. This is a big opportunity. It's got health benefits, fresh air, recreation, leisure. It's got this very large retired class who are active. It's got resource.

So I'm very enthusiastic on that front. That's a personal view. It comes from the experience of being deeply involved with just one wildlife trust and seeing what happens.

Question 4

My question follows on your last answer very well, I think. It's a radical agenda for how we handle [indiscernible] diversity in non-renewable or renewable natural resources. My question is, how much institutional change would there have to be to apply that agenda? If we look at climate change and we look at the difficulties, for example, in the European trading system – the European emissions trading system was a big institutional innovation. Do you see any other big institutional innovations, apart from a sort of general engagement across the field with the third sector?

Dieter Helm

I'm very sceptical about grand plans to solve these kinds of problems. We've had a lot of experience in the last quarter of a century of the idea, just get the institutions right, it will be fine. Everything from an independent Bank of England which was going to pursue an inflation target, which it clearly doesn't, through to big initiatives about what institutions there should be on the global warming front. I'm sceptical for two reasons. One is, they take a long time. Secondly, they divert people's attention from getting on with what's there.

If you look in this space, there are lots of different levels to this. At the local level, there are lots of people doing stuff already, and also at the national. It's just disjointed. It's about coordination. That's one of the reasons I like the idea – I'm typically a market-based economist who doesn't like plans, but the reason I like a plan is to coalesce many of these different activities together to get the whole thing much more than the sum of its parts. I said earlier, this is much bigger than the trade union movement, but it punches way below its weight. You get uncoordinated things. At a very micro level, we've got Buglife, Plantlife, the RSPB, the BTO, the National Trust, the Wildlife Trust – there are a complete plethora of these organizations, many of them starved of resources. They don't even coordinate their membership, collection, IT systems, etc.

So I think the 25-year plan is, in some sense, a way of corralling the institutions together, but with a twist: I think somebody has to be in charge. That bears upon my attempt to dance around your question of what should happen next with regard to the Natural Capital Committee. The Natural Capital Committee could be, its successor, in charge of this process of making it work. Or somebody else could. It's just when I think of all the other possibilities, they have downsides attached to them as well as positives. That's local, you can do it in the local village. We have a thing in our village where the kids have all got together to look after the wood and do stuff like that. We have backyard diversity with trying to get everyone to plant more wildflowers in their gardens. We have the Wildlife Trust with its initiatives. We have national things joined up.

Internationally, institutions matter. Back to the question that was asked about the rainforests, clearly you don't make progress here until you've got something which people sign up to, which reduces their sovereignty – by which I mean treaties, protocols or agreements. We have been through 25 years of very badly designed ones in climate change. CITEES is clearly not working very well. There's the WAVES project at the World Bank. There is a need for something further on that front, not some great big plan to solve it at a global level, but I think more initiative on that front. That's my only kind of criticism of the enthusiasm about climate change at the moment. It's starving of oxygen this territory, because all the environmental effort is going into this global warming.

David Shukman

During the countdown to Paris.

Dieter Helm

Yes, exactly. What I worry about is we really are only at the Thatcher stage of climate change, when she makes a speech and says there's a serious problem, in the 1980s. She's not the only person but that's the first time things get on the political agenda. That's a quarter of a century ago, and we haven't got a quarter of a century because the rate of destruction – the rainforests, species and so on – is just too fast. In a quarter of a century's time, the world economy is going to be eight times bigger. In ten years, China doubles. There are many great advantages of China's economic growth but it has been pretty environmentally catastrophic. That's just the economy it is today. Replicate it. That happens before you decide to do something – it's like in the climate change debate, we're going to do something by 2030. That's another 1,000 gigawatts of coal on the system. Time is of the essence to get some progress on this front.

I haven't done much in the book about international institutions. The Natural Capital Committee is about England, it's very local. But these are obviously important components.

Question 5

Your latter point actually segues beautifully into my question, which was on the international realm. These are very much issues that transcend national boundaries. As an economist, if you model things at the micro or the domestic level, it's a very different constrained optimization and policy direction you need to go in, versus the international picture. So any thoughts given to that, how things might work there? Because there's many scenarios possible where a country can act domestically, and attacking something from a more international perspective would give a more optimal but very different outcome.

Dieter Helm

For an economist's perspective, these are global public goods, with all the characteristics that public goods have. Zero marginal costs, large fixed, sunk costs, etc. So it's there in spades on a global scale. The first thing to do is to say you should exhaust all the things that are in those countries' interest anyway to do, before you take the global into account. That's where the natural capital accounting initiatives on a global scale are extremely important. So just as I described in the UK, if you want to work out what our sustainable growth rate actually is, you have to do the accounts, take the compensation for the damage to natural assets – you have to do that in every country, not special to England. The WAVES project at the World Bank, which takes the system of national accounts, which is what the UN has developed over the post-war period – because of course we've been trying for ages to see what the growth rate of Zimbabwe is and what the growth rate of Russia is, etc., to have a standardized accounting process – that all helps that process. But there's going to be a bit left on top, which is the global commons as opposed to what can be captured domestically. That bit on top comes down to things like global compensation funds, and all the problems and opportunities that exist in global climate funds exist in that frame too.

Some of those are very local in the way they're captured. So for example, the RSPB spends members' money in bits of the coast of West Africa, to look after the habitat of particular birds that come here. If you like your swallows – I happen to like swallows and swifts a great deal – then it matters what happens in Africa every bit as it matters here. So if you look at these organizations – Plantlife International, etc. – there's a bottom-up way of doing some of those compensations. But none of it is as important, unfortunately, as what is a global deal for the Amazon, the Congo, the Mekong. How globally do you stop the Chinese putting two more massive dams on the top of the Mekong? These are the sorts of almost geopolitical questions that come up. What we know about global commons in a whole variety of areas is they're really difficult to do, whether it be negative ones like arms control, the stuff that Chatham House exists to look at – these are incredibly different problems.

It's pretty bad so we must be able to make it better. We must read across from all these other global public goods to try to find ways of designing some institutions to do it. But I don't have a ready-made set of answers and I don't think anybody does.

Question 6

You uttered scant but strong criticism of the Common Agricultural Policy. I'm wondering whether you would be a bit more specific. Given the changes that have taken place over the last 20 years, very much in the sort of direction you're seeking, what would be the particular changes now and what is the scale of the impact that might be achieved if those changes were made?

Dieter Helm

First of all, the sort of siting shot is the Common Agricultural Policy in Europe over the last three or four decades, but particularly in the 1970s, is responsible for a huge loss of biodiversity and a great deal of pollution. For farmland birds, all sorts of stuff. Hedgerow removal, all that kind of thing. Secondly, yes, it has been reformed. We've got away from the butter mountains and the wine lakes and all that terrible stuff that was caused by an appallingly designed policy. However, we still subsidize agriculture. So the first question is, what are we subsidizing it for? Why do we pay farmers single-farm payments? Why? We don't pay steel producers single-steel payments. We don't pay car manufacturers single-car payments. Why do we subsidize these people?

It's true that the subsidy is disjointed from the production, and that's a good thing because it stops over-production. But the fact that there's an income effect for this changes the value of farmland all over the place and distorts the market. I happen to have a house in the middle of a farm complex in the middle of Exmoor. They receive their single-farm payment and they mow the fields just to keep it tidy. They don't have any sheep on it. You can see the effects.

The second thing to say is if we are going to subsidize this sector, we ought to get the maximum social benefit from it. So the Pillar Two stuff, which is about the environmental areas. There are lots of things to say about it. First of all, it should be massively bigger. Owen Patterson, to his credit, was the person who tried hardest to push that argument, despite what many Green people think about his term of office. He was really good in those negotiations. We at the Natural Capital Committee actually provided some advice on that.

The second thing you should do is try to make sure that the money you are spending on second pillar, the environmental bit, is well spent. This is a personal view, not an NCC view. I would auction them. I would say: you bid for how big the environmental benefits are, for every buck of subsidy you get. So don't just tell me you're going to do some field margin thing. If there's a bit on your land which really could change pollution into a river, you bid a bigger benefit and we'll just allocate the money to get the best environmental outcome in natural capital terms. That's a personal proposal I have.

But the actual way it works is truly, pretty awful. I run through my local farm three times a week. The guy receives higher-level stewardship payments because the edge of the field is not ploughed up. It's flattened. It's mowed at certain times. Cross-compliance is never actually extracted. I asked a question at DEFRA as to whether any farmer had lost their benefits because they'd failed to do cross-compliance. That's doing all the environmental bits. I couldn't find an example of any. We could at least make the money we're using do a better job. We could make a much better job of the aggregate money we're spending on these environment schemes by getting the best environmental schemes. By the way, I time up to the 25-year plan, that's a personal view. We could do much better from an economic growth perspective if we realized that since we're paying the farmers all this money -- £3 billion or whatever it is -- we should try to focus on the maximum social benefit from that and not what we've got at the moment. If they pay the nitrates and fertilizer and herbicide pollution costs that they cause, in the same way any other company would do, again, we'd be in a much better state.

But as an aside, I have a paper out on what we should do with the green belt, which anyone is welcome to. I'm writing a paper on the agricultural side which will make good friends of people in the farming community later on in the year.

David Shukman

That feels very close to the front of your mind, hence the passion behind that answer. We've now run out of time. It just remains for me to say, Dieter, thank you very much indeed for being so clear about this. There's no obfuscation, you really lay it out with a great turn of phrase. I think it is at a very timely moment, not only with Paris a few months away, the pope intervening just the other day. I look forward to seeing what emerges from Whitehall in September.

Dieter Helm

Must be by September, if not before.

David Shukman

By September, or you'll be off, back to Oxford, as it were. Join me all in thanking Dieter Helm.