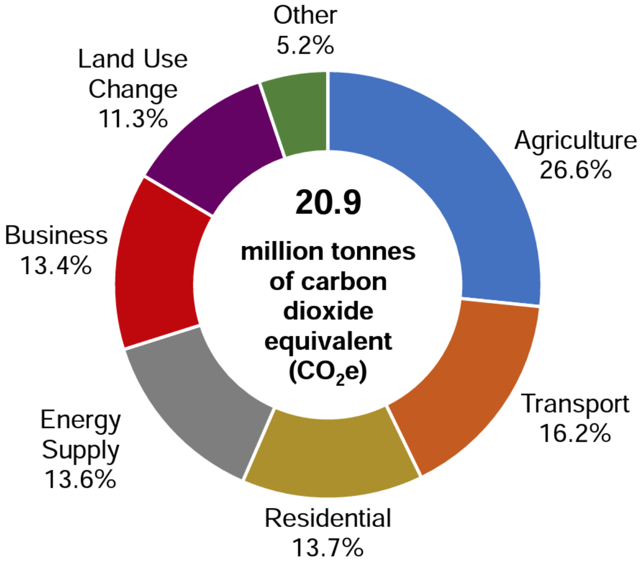
ESG Monthly Engagement

Fund Manager Commentary

Hugh Cuthbert | July 2022

The need for more sustainable land management



[1]Greenhouse gas emissions by sector (%) Northern Ireland, 2020

Land is a universal asset with an investment duration surpassing most other asset classes. But while its supply may be stable, demand can be volatile, driven by a host of underlying factors. Competing demands for land are currently driving sharply rising prices particularly for farmland and it is not just higher food and timber prices which are the culprit; the pandemic, alternative forms of energy and carbon offset schemes have stimulated new interest in even low-quality agricultural acreage.

Here in the UK of the farms that have changed hands in the past five years, investors and corporate buyers have bought more than 40%. Agricultural land quality is no longer the key determinant of farmland value, as new interest focuses on carbon offset markets, forestry grants, lifestyle and rewilding. The change is most marked in poor livestock land, which has suddenly discovered new use. There is a danger that institutional buyers looking for carbon offset in forestry are competing for good agricultural land. Investment institutions specialising in this have unearthed widespread demand for the returns that can be generated from this type of "green" investment.

Changing buyer patterns have been driven by the pandemic and new ways of working, as quality of life consideration drives a re-evaluation of rural lifestyles. Demand has also been encouraged by low interest rates, strong long term investment performance of farmland and often favourable capital taxation. There is also a healthy increased interest in restoring eco-systems and improving amenity.

Many of these natural capital opportunities are positive – provided good quality farmland does not move into carbon offset and undermine food production. Although wild places have a capacity to capture carbon on an immense scale, the timescale for regenerating peatlands is long. By comparison, timber that might easily re-enter the carbon cycle within a couple of decades has easy short term financial measures; appealing but perhaps illusory. Natural capital seems to be being priced inconsistently, with too much credit given for relatively transient offsetting projects.

And there is the danger that offsetting merely perpetuates some bad carbon-emitting activities. While people understand what is meant by zero carbon emissions, the concept of "net zero" is more abstract and less trusted. Using this to drive changing land use through market forces and price competition, may undermine the sort of sustainability that many policy makers have in mind.

Despite the need globally to reduce dependence on fossil fuels, there are downsides to ill-considered green energy. Carbon reduction could be at the expense of bio-diversity, if there is not some minimum target for native species in new woodland schemes. And there is the danger that the offset approach, to create a net-zero economy, simply allows polluting activities to continue with business as usual. It may be an ineffective way to manage a just transition in greenhouse gases, which won't stop oil extraction or reduce flying. Even applying a carbon emissions land tax as a lever to transform land use might simply export some of the carbon production to other parts of the world. Legislators need to be aware and cautious in imagining what the real global impact of their policies might be.

The competition between quality food production and new demands on the land shows up in market prices and changing ownership. Some of this new use and ownership may be in-line with long term sustainability and public interest, but it does challenge policy and planning. In Scotland in 2014, the government announced a target of 1 million acres in community ownership by 2020, yet achieved only half of this, mainly due to rising land prices.

This is triggering calls to bring some restriction to the free market in land prices. And there may be a case for introducing a public interest test for very large transfers of land. How rapidly these might have an effect is questionable, affecting only land changing hands – embedding responsible land ownership may be a surer route. Certainly, more attention must now be given to a wider group of stakeholders in how land is used.

Warning has been sounded in a report on the Northern Ireland Agri-Food sector which notes that the price for its growth has been an emphasis on livestock. The result is a rise in greenhouse gas emissions (GHG) from its agriculture, up almost 9% over the last decade, primarily from cattle. Agriculture now accounts for more than one-quarter of Northern Ireland's GHG emissions.

The Ukraine war has exacerbated a global food crisis, forcing compromises in addressing the climate emergency to ensure food security. And it should no longer be considered acceptable to compromise peatland by installing windfarms on such a fragile asset. Alternative energy is certainly needed, but it must be implemented in a sensitive way that does not create new environmental damage. With care, there is potential to move to more sustainable and productive land management. Policies need now to be updated to recognise the new reality of price rises in food, land and carbon offset.

[1]Northern Ireland Greenhouse Gas Emissions 2020 - Northern Ireland Statistics and Research Agency

Active Management - Engagement Focus

Adevinta

We contacted Norwegian online marketplace operator Adevinta as the company has stepped out with the guidelines of its own remuneration policy. In this instance the company's CEO was paid a bonus which exceeded the maximum level as prescribed by the policy. While Adevinta acknowledged this concern, they described the award as a "one-off" further saying that "in general, it is the intention that any payments will be made inside the stated policy levels". Such a stance makes the remuneration policy somewhat redundant, and we voted against the item at the AGM.

Living Wage

As mentioned last month we have corresponded with a number of our holdings regarding not only payment of the living wage, but also potential accreditation with The Living Wage Foundation. A clear pattern has emerged that highlights that many companies are very willing to pay the Living Wage but fewer are happy with seeking accreditation. This is highlighted by a snapshot of the reply from one of our companies below;

"Both our permanent and fixed term workers who we set the rate of pay for are treated consistently and receive above the living wage pay rate. We work closely with our suppliers through our global sourcing principles which outlines that suppliers should pay a fair wage and work towards paying a fair living wage.

We are not seeking Living Wage accreditation, as we value the independence to get the basics right for our colleagues, we strongly feel we need to be able to set the payment rates alongside wider benefits that we believe are right for our people, our shareholders and are affordable and sustainable. I can assure you we will continue to be a responsible business and will engage on this topic as our people are at the heart of our business and will remain so."

While we understand the rationale behind such statements, we are concerned some may use such a stance as an excuse to avoid seeking accreditation as the process may uncover some home truths about the reality of less generous remuneration strategies.