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Responsibly scaling peatland restoration in Scotland:

Policy options to build fairness and integrity into natural capital markets

Restoring Scotland's degraded peatlands is central to its climate, biodiversity and land-use goals, but meeting national targets is expected to require private and blended finance alongside public grants. Drawing on a governance analysis comparing peatland policy in Scotland and Denmark, this brief sets out six practical, testable policy options for scaling restoration finance without compromising value for money, market integrity or fairness to the people who live and work on peatland.

Key messages

1. Re-run the Carbon Contracts Pilot with revised, more attractive risk-sharing terms, testing public and community-led delivery alongside landowner-led projects.
2. Commission feasibility studies into alternative blended finance models, such as contracts for difference and public-led, income-contingent loans, that attract landowners while protecting public finances.
3. Scope design options for a peatland emissions tax with staged pilots to manage risk whilst building evidence and operational capabilities.
4. Pilot a high-integrity UK land-sector insetting pathway for peatlands, interoperable with offset markets, ahead of the GHG Protocol LSR Standard.
5. Pilot standards for inclusion for community benefits to make proportionate community engagement and benefit standard practice in natural capital projects.
6. Resolve crofting and tenant carbon rights through proactive regulation.

The challenge

Scotland's degraded peatlands are a significant source of greenhouse gas emissions, and restoring them is central to the country's climate, biodiversity and land-use objectives. Public grant funding through Peatland ACTION has driven restoration to date, but meeting Scotland's long-term restoration targets is widely expected to require additional private and blended finance, including through the Peatland Code. Scaling that investment raises difficult questions about public value for money, market integrity, and fairness to the crofters, tenants and communities who live and work on peatland.

About this research: aims, approach and findings

This brief draws on research funded by Scottish Governnment and Horizon Europe examining how finance mechanisms, carbon and nature markets, taxation, community benefit and land tenure interact in the Scottish context, comparing experience with Denmark. The six recommendations that follow are the policy options arose from a qualitative analysis of interviews with natural capital market and policy actors, triangulated via a focus group. The policy recommendations arising from this analysis were refined via a policy roundtable with interview participants. Each recommendation is designed to be piloted, evaluated against clear success criteria, and then scaled, revised or discontinued on the basis of piloting evidence.

Policy recommendations

1

RECOMMENDATION 1

Test revised risk-sharing mechanisms for Peatland Code projects

Re-run the Carbon Contracts Pilot with revised terms that are likely to be more attractive to landowners. Test public or community-led delivery alongside landowner-led projects, so that public risk-sharing is not limited to subsidising private returns. Consider integrating a community benefit plan into some of the pilot projects and re-emphasise the retention of purely publicly funded routes through Peatland ACTION.

It may still be possible to meet public procurement value for money tests if additional payments are made for MRV costs and biodiversity, quantified via forthcoming metrics that are due to be integrated with the Peatland Code. Although the addition of biodiversity payments would not meet the additionality criteria in all sites, and so projects would only be able to include and issue carbon units, payments could include biodiversity monitoring costs and the metric could still be used to provide government with a quantification of the biodiversity benefits purchased with the additional funding. Further discussion with the Peatland Code team is recommended, if possible, to build this option into the design of the new scheme. The pilot should not apply to crofting common grazings or tenanted land unless rights, liabilities and decision-making authority have been resolved and relevant land occupiers have opted in (see recommendation 7).

2

RECOMMENDATION 2

Test alternative blended finance models for peatland restoration

Commission feasibility studies to explore the potential for blending mechanisms to make future pilots more attractive to landowners, whilst minimising risk to public finances, and meeting Peatland Code rules, public procurement requirements and subsidy control. Options to test include:

- Contract for difference approaches, under which landowners or project developers would sell Peatland Carbon Units into the market and Scottish Government would pay some or all of the

difference between a transparent reference price and an agreed strike price. This could provide landowners with greater certainty around revenues than the current pilot, while reducing the risk that Scottish Government becomes the default purchaser of units.

- Future Economy Scotland's proposals for a public-led, income-contingent finance model for peatland restoration, in which Peatland ACTION grants would be replaced with zero-interest, income-contingent loans for capital costs, repayable only where future project revenues make repayment affordable. The model could also include annual operating payments for maintenance and MRV costs, alongside a requirement for a proportion of net profits to be ring-fenced for local community benefit. It is argued that this could make restoration more attractive by reducing exposure to commercial debt, whilst enabling the public sector to recover some costs if carbon revenues rise.

A contract for difference feasibility study could assess whether a one-way, two-way or capped contract for difference would offer the best balance between landowner attractiveness, private finance mobilisation, financial additionality and public value for money. It could also examine different methods for setting the strike price, for example: reverse auction; forecast PCU market values; a cost-plus approach based on restoration, MRV and transaction costs; and a principal-plus-return approach, where the strike price is calibrated to allow private investors to recover their principal plus a capped return. The study should include an explicit public exposure cap, a comparison with direct public funding and a test of compatibility with land reform commitments.

A further feasibility study could assess whether a public-led, income-contingent finance model would offer a more attractive and lower-cost alternative to de-risked private finance, including stress testing of assumptions about carbon prices, PIU (pending issuance unit)/PCU (peatland carbon unit) sale timing, restoration and maintenance costs, public cost of capital, administrative costs and contingent liabilities. It could also examine design options to protect Peatland Code additionality if repayable finance becomes non-repayable support, including repayable-only loans with termination triggers, in-kind repayment via verified PCUs, and delivery through Peatland ACTION, the Scottish National Investment Bank or a dedicated public fund. For crofting and other shared-tenure contexts, the model could include an opt-in rule and options tailored for community ownership.

To ensure that feasibility studies lead to concrete decisions, each study could define success criteria for whether a model proceeds to pilot, is revised or is rejected. Success criteria should cover financial additionality, public value, distributional effects, compatibility with land reform and effects on land occupiers. Given that different types of restoration projects will require different levels of finance, it may be necessary to create a tiered finance framework for distinguishing complex, high-risk sites, standard sites and revenue-generating sites.

3 RECOMMENDATION 3
Develop a fair and evidence-based peatland emissions tax

Commission a feasibility study to assess whether a peatland land emissions carbon tax could be designed in such a way as to provide a fair and proportionate signal to reduce emissions from degraded peat, whilst complementing Peatland ACTION and the Peatland Code. This could include:

- A research and data-development phase to improve national screening layers for peat extent, condition and erosion.
- A narrow initial pilot focused on bare and actively eroding peat, with no live fiscal liability.
- If this is successful, a later pilot could test whether water-table-depth-based evidence can adjust default liabilities for drained or modified peat, using safeguards such as multi-year averaging, uncertainty discounts and caps on annual changes.

The study could assess interactions with Peatland ACTION, the Peatland Code and tenure arrangements, including crofting common grazings, tenanted land, community-owned land, NGO land and large private estates. It could also test who would be liable, how appeals would work, and incorporate a restorability test that outlines how relief would apply where restoration is constrained by

hydrology, access, tenure, neighbouring land uses or contractor availability. A site trajectory classification could be incorporated to differentiate between sites that are actively eroding, stable, recovering, partially rewetted and currently under improvement. A triage tool and associated clear options streams could be useful to landowners linking site conditions with restorability options. The tool could also indicate when the appropriate response is public support, tenure resolution or regulatory clarification rather than a tax liability.

4 RECOMMENDATION 5
Create a high-integrity UK land-sector insetting pathway for peatlands

Consider establishing a UK Land Sector and Removals (LSR) Standard adoption pilot focused on high-integrity insetting and interoperability with offset markets, after the launch of the GHG Protocol's LSR Standard on 1 January 2027. This could include:

- A UK implementation guide for land-sector businesses wishing to use inventory-based insetting to fund interventions in their own UK supply chains and report emissions changes under the LSR Standard, with guidance on consent, claims discipline and separation from offset claims.
- A method for land-sector businesses to use project-based insetting via existing domestic voluntary nature markets. This could, for example, start by developing an LSR-compliant pathway through the Peatland Code, where PCUs are issued, assigned or retired through the UK Land Carbon Registry, subject to safeguards on local decision-making, revenue-sharing and liability.
- Based on lessons from this work, develop a BSI Code of Practice for high-integrity insetting that could be used to develop similar pathways through other nature markets in the UK, by applying the same standards for additionality, baselines, monitoring, leakage, permanence, registry control, verification and claims discipline, whilst ensuring inventory reductions, inset credits, offsets and contribution claims remain distinct.

5 RECOMMENDATION 6
Make inclusive engagement and community benefit standard practice in natural capital projects

Pilot BSI Flex 705 and the Scottish Government-funded Community Inclusion for Community Benefit best practice guide as the basis for a proportionate community engagement standard that could be optional for natural capital projects with private climate finance, and required for entirely publicly funded projects. The pilot could test how the guidance works across different geographies, tenures and project scales, including crofting, tenanted land, community-owned land, large private estates and sparsely populated areas. Success criteria should be established beforehand so that once finished, a decision can be made quickly on whether this can be implemented. The pilot should also recommend clearer thresholds for proportionality, evidence requirements, grievance procedures and guidance for engaging with crofting and common grazings communities.

The community benefit clauses and guidance in these standards could also be piloted. The pilot should recognise financial and non-financial benefits, including local employment, training, funding for capacity-building, contractor capacity, shared governance, access, cultural interpretation, community wealth building and support for local services. The pilot could test how additional community benefit plans can be designed, negotiated through early engagement processes, delivered and reviewed in projects with different revenue models, ownership structures and levels of public funding. Where projects generate verified revenue, larger projects should test a benefit floor with additional upside-sharing above agreed thresholds. The pilot could test whether compliance is best

secured through public funding conditions, code requirements, registry disclosure, independent verification or community benefit agreements. It should also test community-led and public-sector-led ownership routes, rather than assuming benefit-sharing from privately owned projects is the preferred model. It could also consider how benefits should be handled where there is no clearly affected local community, where the community comprises families living and working on estates, where communities decline direct involvement, or where a regional fund may be more appropriate.

RECOMMENDATION 8

6 Resolve crofting and tenant carbon rights before scaling private peatland investment

Scottish Government should resolve carbon rights within crofting tenure before private peatland investment is scaled. This should be done through proactive regulation, not left to case-by-case negotiation. This could include statutory clarification that peatland restoration can proceed through Section 50B where appropriate, express provision for crofters or grazings committees to hold or allocate carbon rights where a project is approved, and a parallel route for landlord-led or joint peatland ventures where that better fits local circumstances. Any route should require explicit support from the relevant crofters, grazings committees or tenants, and should prevent landowner veto where local participants have a viable approved project route. Peat mapping could be done across crofting tenure and common grazings, highlighting peat extent, degraded peat and restoration potential. Model agreements could be developed for carbon registration, credit allocation, revenue sharing, grazing and peat-cutting restrictions, long-term management, liability and succession. Public investment-readiness funding could support a small number of test cases including public and community-led models. This would reduce transaction costs, protect crofters and landlords from unclear liabilities, give investors a clearer basis for due diligence, and allow Peatland Code income to support restoration while maintaining local control over value-sharing and future insetting needs. Any statutory declaration should consider tenant carbon rights alongside crofting carbon rights, clarifying where these may differ.

Contact and credits

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For more information, a deliverable report is available on request: Mark S. Reed, Eric A. Jensen, Imogen Bliss, Rosie Gearey, Gabriela Kolpak, Mathieu Gasowski and Lorenzo Pugliese (2026) *WET HORIZONS Deliverable 6.3 — 'Governance analysis report including empirical findings on peatland policies and strategies in Denmark and Scotland'.*

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