Understanding UK's woodland carbon market

Michael Hay introduces his five-part series of articles for FTN which explain the basic concepts of woodland carbon and carbon markets.

Carbon markets are fast-emerging as some of the 21st century's most important. After decades of inaction, environmental 'externalities' are finally being shoehorned into our economic system, allowing their true value to be appreciated. But that process isn't necessarily a straightforward one, nor easy to comprehend. There is a lot to get one's head around, from the different types of carbon markets in existence – compliance and voluntary – to the different carbon commodities that can be sold, such as peatland carbon, woodland carbon, blue carbon, and more. Even within the woodland carbon category there are countless routes to market, and countless more acronyms. In the UK alone, we've got a 'Woodland Carbon Code', the 'Woodland Carbon Guarantee' and a 'Woodland Carbon Fund'.

But what does each of those mean? What is their purpose, and how do they relate to each other? More importantly, which one is relevant to you?

These are some of the questions I will be answering in this series of five articles. Starting with the 'Woodland Carbon Code', which underpins the woodland carbon market in the UK, I will look in future issues at what governs the price within carbon markets, how this market interacts (in England) with the 'Woodland Carbon Guarantee' and what the direction of travel for ecosystem services markets is, in this country. Finally, I'll be fielding questions from you, the FTN's readers. So, if any of the content I cover piques your interest then please get in touch with the editorial team and let them know!

Matthew Hay is project manager at Forest Carbon Ltd, which specialises in financing woodland creation for carbon capture.

WOODLAND CARBON EXPLAINED PART 1

The Woodland Carbon Code

For any voluntary carbon market to operate smoothly, a degree of governance and regulation is essential. Without this, as we sadly sometimes see in other countries, carbon offsetting (and the projects it finances) can become something of a 'wild west'. Happily this is not the case in the UK, but that is because our domestic market has its very own safeguard in the 'Woodland Carbon Code'.

Technically, the 'Woodland Carbon Code' (WCC) is a type of carbon standard, one of many in operation worldwide, and analogous to those managed by organisations like Verra and Gold Standard. The code can be thought of as a rulebook, with jurisdiction over any woodland carbon projects in the UK that wish to supply legitimate carbon credits to the market. Every project developed under the 'Woodland Carbon Code' has had to meet certain criteria in order to be validated, and this provides transparency and assurance to buyers of carbon, just as the FSC and PEFC do for timber (and non-timber forest) products in their respective markets.

In particular, the 'Woodland Carbon Code' tackles the key concepts of additionality and permanence head-on. This ensures that any and all carbon credits supplied to the UK's carbon market represent permanent sequestration of atmospheric CO_2, sequestration that would not have happened without the promise of income from the sale of carbon credits. It is hard to over-emphasise the importance of having a carbon standard like the 'Woodland Carbon Code' in place. Not only does it provide vital protection against cowboys and scammers, it gives buyers the confidence they need to participate in this market, and an incentive against procuring 'cheap' carbon from overseas.

For landowners or tenants looking to generate income from woodland carbon, the process starts by registering their project with the 'Woodland Carbon Code', or by finding a project developer who will do that for them. The landowner or tenant must be sure, however, within his or her own mind that income from carbon is critical to the economic viability of their project. Think of the 'Woodland Carbon Code' as existing to make financially unattractive woodland creation projects attractive. If your project is something you would be going ahead with anyway, for instance if carbon income didn't exist, then it is unlikely to be additional, and so will not achieve validation under the 'Woodland Carbon Code'.

Assuming the additionality is genuine, though, then once a woodland creation project has been registered with the 'Woodland Carbon Code' there are two types of carbon products a landowner or tenant can sell on the market: 'Pending Issuance Units' (PIUs) or 'Woodland Carbon Units' (WCUs). The differences between these are important, as they affect the price a project's woodland carbon can achieve and, crucially, when it can convert that value into cash.

> "It gives buyers the confidence they need to participate in this market

What is?

Additionality: This is a key principle that underpins the monetisation of ecosystem services. Its purpose is to safeguard 'Payments for Ecosystem Services' (PES), by ensuring that money is not being spent on ecosystem services that would have been (or were being) provided in the absence of PES.

Permanence: For an offset to work, removal of carbon dioxide from the atmosphere must be permanent, and not reversed at a future point in time. Woodland projects carry a risk of reversibility and as such safeguards must be in place to minimise that risk, as well as to guarantee replacement should a reversal occur.

UP NEXT

PIUc, WCUs and carbon markets

To learn more about the distinctions between PIUs and WCUs, as well as information about the prices and trends within the UK's woodland carbon market, make sure you read the next article in this series, entitled: *'How to Release Income from Woodland Carbon'.*