

Your carbon market questions answered

In his fifth and final article for *Forestry and Timber News*, Forest Carbon's **Matthew Hay** answers your questions about carbon markets, project development and additionality.



Is interest in the voluntary carbon market just a bubble that is going to pop?

This is a question I get asked a lot and the answer is of course that I don't know! People who witnessed the 'dot com' boom up close claim there are parallels, but I'm too young to substantiate that. There are, however, some trends that I am confident about and some known unknowns at work here, which are worth considering.

For instance, I think we can be pretty sure that ecosystem markets are here to stay. They will expand, from woodland and peatland carbon to other ecosystems (blue carbon, soil carbon etc.) and to other ecosystem services like biodiversity and nutrient neutrality.

I suspect that the market for biodiversity 'offsets' will soon bifurcate into a compliance market (ie Biodiversity Net Gain) and a voluntary one. The latter, in conjunction with new carbon markets, may reduce interest in the woodland carbon market, but I suspect demand for the wider ecosystem markets will only increase as we progress through the 2020s.

The elephant in the room is government plans for a future carbon tax, and how this interacts with voluntary ecosystem markets. Economists say that without all-encompassing carbon taxes our societies stand little chance of decarbonising by 2050, so it is probably a case of when, not if, these are brought in. If businesses are obliged to pay for their emissions they will immediately shift their focus onto reducing these at source instead of offsetting (no bad thing), but they will probably also feel that they have paid their carbon dues (to HMRC), sapping motivation to purchase carbon credits from the voluntary market.

Government, however, won't want to kill private sector investment into nature-based solutions, so will likely try and ensure any carbon taxes interface constructively with existing ecosystem markets. How this will work in practice is anyone's guess.



Are the Woodland Carbon Code's additionality tests too stringent, given the need to increase planting rates?

Again, a question I often hear, especially from landowners with ambitions to create productive woodlands that aren't considered additional by the Woodland Carbon Code. The answer to this is an emphatic 'no'.

Additionality is vital to the integrity of ecosystem markets, and serves its main purpose in reassuring buyers of (carbon) credits that their money has actually done something. Without additionality, buyers' claims of emissions reductions would mean nothing, and the value of the carbon credits would be severely undermined. With ever increasing scrutiny of corporate claims to Carbon Neutrality, Net Zero, etc, businesses would quickly exit the UK market if there was any doubt as to the integrity of the credits generated.

It is also worth remembering that we face a climate and biodiversity crisis, with the voluntary carbon market currently providing a key economic incentive to create new native woodlands. If additionality rules are relaxed to incorporate productive schemes that are financially attractive without carbon income, it will further reduce the incentive for landowners to create and expand native woodland habitats.



What is the difference between ex-ante and ex-post carbon credits?

In the context of the woodland carbon market, Pending Issuance Units (PIUs) are ex-ante credits and Woodland Carbon Units (WCUs) are ex-post. The former is a promise of future carbon sequestration and the latter is a verified tonne of sequestration that has happened. The reason the distinction matters is that many of the businesses who buy credits from the voluntary carbon market will have footprints that they want to offset. This isn't possible with ex-ante PIUs, as



the carbon is yet to be sequestered. As a result, businesses who want to make offsetting claims will have to purchase ex-post credits from sellers of WCUs or other carbon markets.

This is not to say that purchasing PIUs is less desirable for all businesses. A lot of companies we talk to like the idea of ex-ante credits because it makes their financial contribution feel more real, and their involvement in the project more tangible, given that they invested in it at the outset. It really is a case of horses for courses.



Are project developers the same as brokers or traders?

No, the role of a project developer is to facilitate a scheme's carbon generation. This can involve assessing the project's additionality, calculating the sequestration potential, undertaking registration and validation with the relevant standard (eg the Woodland Carbon Code), and assuming responsibility for ongoing verifications.

This is different to a carbon trader, a business that buys and sells carbon credits, and a broker, who will facilitate transactions between a buyer and seller for a fee. Many businesses that offer project development services will also be able to act as a carbon trader or broker, too, if the land manager is looking to sell some or all of their carbon.

That's all from me in this carbon series. I hope that it has been useful and informative for FTN readers. If you'd like to contact me to discuss woodland carbon, please email mjh@forestcarbon.co.uk.