Rapid changes in the carbon market

The UK Woodland Carbon Code's **Vicky West** investigates the rapid expansion of the global and UK carbon markets

Growth of the market – global and UK

The Voluntary Carbon Market provides carbon credits to organisations and individuals that choose to compensate for their unavoidable emissions – in addition to doing all they can to reduce the emissions they are directly or indirectly responsible for. The last year has seen unprecedented growth in the global voluntary carbon market, which is on track to exceed $1Bn in transactions during 2021. This year has already seen 27% more credits transacted than 2020, in itself a record year for volume despite the global pandemic. Forestry and Landuse projects dominate the picture this year with more credits issued than for other any other project types including renewable energy, energy efficiency, agriculture, or waste disposal.

This rapid growth is mirrored in the UK. In the financial year to 31 March 2021, the number of projects registered with the Woodland Carbon Code almost doubled from 343 to 708, and so far, this year almost another 500 have been registered – a further ~70% increase in six months. The Peatland Code has more than double the number of projects now (32) than a year ago with greater interest in Peatland Code projects from forest agents. There is also increased demand from organisations looking to meet net zero targets in the coming years with an estimated 3 million of the 4.5 million issued woodland units sold upfront as 'Pending Issuance Units'.

As well as growth with the 'existing' woodland and peatland market, a number of new carbon standards have been proposed and received funding for development through Natural England's Investment Readiness Fund. This includes standards for lowland peatland, hedgerows, farm soil carbon, rewilding, salt marshes and sea kelp. The market for land and sea-based carbon credits could grow markedly in the near future.

Alongside the rapid growth of projects and participants in the carbon market are a number of initiatives to promote and ensure integrity and liquidity. The Taskforce on Scaling Voluntary Carbon Markets promotes the establishment of 'Core Carbon Principles' against which supply-side projects can be assessed for their quality; the Voluntary Carbon Markets Integrity Initiative focusses on the quality and accuracy of claims at the buyer or demand-side as do 'The Oxford Offsetting Principles'.

Carbon market 'principles'

The carbon market is based on trust; integrity and transparency are key. As the market grows rapidly, it's important to remember the 'key principles' embedded in the UK's Woodland Carbon Code which are common amongst the leading carbon standards globally and echoed by other 'standards-setters' such as ICROA, the British Standards Institute (via PAS2060) and the UK Government (via the Environmental Reporting Guidelines).

Additionality

This is the key 'criteria' for eligibility of carbon projects common across all carbon standards. The voluntary carbon market is looking to generate 'extra' emissions reductions or sequestration above what would 'normally' happen. This is generally assessed through two 'tests':

- **Legal test:** The activity cannot be legally required. If an action is legally required, then it's going to occur and is therefore not 'extra'.
- **Investment test:** Only 'unviable' projects should receive carbon funding. Projects that are viable without carbon funding are likely to occur anyway and are

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therefore not 'extra sequestration'.

The investment test used in the Woodland Carbon Code is currently being reviewed in order to ensure it is suitably robust to withstand the increased scrutiny of the carbon market. For the investment test, it has to be demonstrated that, over the project duration, either

- Woodland creation without carbon income is not viable (ie negative Net Present Value)
- Woodland creation without carbon income is less viable than the previous landuse (ie Net Present Value of woodland creation is less than Net Present Value of previous landuse)

Buyers of credits want to know that their purchase of carbon units makes a genuine difference to the level of greenhouse gases in the atmosphere. Woodland creation projects which are viable through a combination of other incomes from grant, timber or other ecosystem services, are viewed in the carbon market as likely to be planted in any case without carbon credit buyers' help. An example from the energy market is that solar, wind and hydro projects were once considered 'additional' and eligible for carbon credits, but now that these projects have become more mainstream and cost-effective, they are now only eligible for carbon credits in a very small number of developing countries where they are still deemed 'unviable' without carbon income.

Permanence

The carbon market also attaches great importance to the permanence of carbon credits. A carbon credit sold to a buyer needs to represent a 'permanent' emission reduction from the atmosphere. With all woodlands there is a chance that carbon sequestration could be reversed. The Woodland Carbon Code and Peatland Code handles this risk through a shared 'buffer'. For woodlands, all projects contribute 20% of their carbon units to the buffer to 'protect' any verified units that the landowner sells or uses. Landowners and project developers should make themselves aware of the 'rules' surrounding the shared buffer; this is another area where we are working on some clarification to ensure landowners are clear of their potential future liability.

Credible claims about sequestration

Globally, it is agreed that only verified carbon units, representing actual sequestered carbon, can be used as 'offsets', to compensate for an organisation's emissions. This represents a conundrum for woodland creation which takes time, but Pending Issuance Units, effectively a promise to deliver carbon units in future, can be sold upfront where companies are looking to make plans to be net zero by a given year. Landowners and forest agents should be aware when making sales that Pending Issuance Units are not a guarantee of future verified units.

Avoidance of double-counting and transparency

Projects and carbon units from both the Woodland Carbon Code and the Peatland Code are featured on the UK Land Carbon Registry and each carbon unit has a unique serial number and can be transferred or assigned to the buyer. This ensures that carbon units are unique and can only have one owner. Buyers can keep track of which units they have purchased and indicate when they 'use' them against their emissions. Landowners and project developers should ensure that all sales they make are accurately represented on the registry. This level of transparency is vital in ensuring trust in the marketplace.

Validation, Monitoring and Verification

Woodland Carbon Code and Peatland Code projects are third-party checked by either Organic Farmers and Growers (woodland and peatland) or the Soil Association (woodland only). This makes the projects and credits issued credible and trustworthy in the marketplace and is an essential part of the process. As new methods for monitoring woodlands become viable and reproducible, these will be integrated into the monitoring and verification protocols.

The Woodland Carbon Code team is working to ensure that the Code continues to uphold these principles. This will be critical in order to maintain the integrity, transparency and trust developed in the carbon market so far, thereby enabling additional investment into woodland creation in the coming years.

For more information

Further information on all these issues is available on the Woodland Carbon Code website
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FROM THE NEWS

OECD COUNTRIES ASKING FOR GLOBAL PLAN ON CARBON PRICES

The Financial Times reported on 13 September that, in order to address concerns over carbon trade wars between countries with different levels of sustainability policies, the OECD (Organisation for Economic Co-operation and Development) proposes a global plan for carbon pricing. This follows OECD's success in catalysing an international agreement on corporate taxes. A global plan would allow market spaces such as the European Union to take swifter action on emissions reductions while implementing carbon border taxes on imported goods from nations considered to be 'heavy polluters".