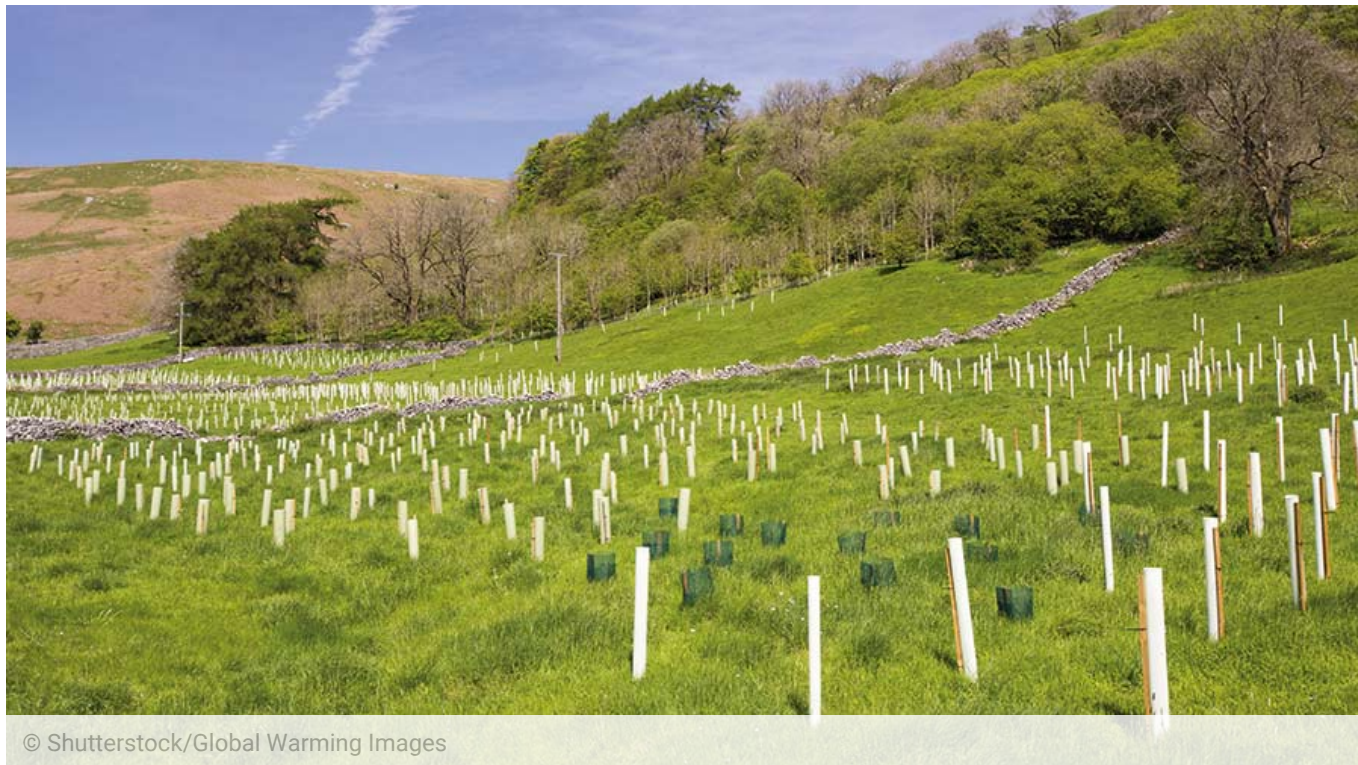




# Carbon credits explained: Long-term income option for farmers

Lauren Harris 05 January 2021



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Farmers looking to combine environmental benefits with a guaranteed long-term income stream should consider carbon credits.

By planting trees, restoring peatland or adapting soil management plans, landowners can help both remove and reduce the amounts of carbon dioxide being released into the atmosphere.

Buyers – generally either the government or large companies looking to offset their carbon footprint – will pay a set amount for each carbon unit (tonne of sequestered carbon) achieved by farmers' efforts.

See also: [Natural capital: What it is and how to value it on your farm](#)

## Woodland Carbon Guarantee

At present, the main opportunity for farmers is in woodland.

The Woodland Carbon Guarantee provides an opportunity for farmers in England to sell promised carbon units to the government via a reverse auction.

This initiative was launched in 2019 to support the government's national carbon reduction and tree planting targets.

Three auctions took place in 2020, and although landowners' bids were sealed, the released average agreed price gives an idea of the value a farmer can expect and should submit.

In the first auction, the average price was £25/unit, although this dropped to £19/unit in the second auction. The third auction's results are yet to be released, but advisers are predicting £20-£21.

If the government accepts the farmer's bid, the parties enter into a 35-year contract.

However, if at any point the farmer finds an interested buyer from the voluntary market who is willing to pay more for the units, they are able to switch to this option.

Rural consultant Brown & Co has helped farmers enter all three of the auctions so far: 10 in the first, 15-20 in the second and third.

## The process

Greg Beeton, Brown & Co divisional partner, outlines the process.

First, the project must be registered with the Woodland Carbon Code, which sets out the Forestry Commission standard and outlines how to measure carbon units.

During this process, the amount of carbon the trees will capture – based on tree species and the management plan – can be calculated.

This calculated amount of carbon can then be placed into the reverse auction at an advised price.

Farmers can either sell Pending Issuance Units (promises of carbon units to be delivered) or Woodland Carbon Units (once woodland and carbon units are delivered).

Pending units will attract a lower price but the income will be generated sooner.

About 75% of landowners are putting in small bids – generally for 3-10ha.

If successful, the farmer's contract states that if they adhere to the Woodland Carbon Code, the government will guarantee payment at that agreed price for the length of the contract.

Grants for the tree planting (a minimum of 3ha required) are on offer through the Forestry Commission.

Five years after the project start date, it must be verified by assessors from Organic Farmers and Growers or the Soil Association (although the land does not have to be registered organic).

Subsequent verifications will occur at a minimum every 10 years.

Farmers will receive payment at each verification interval in line with how much carbon is being sequestered by the planted trees – therefore, there is a financial incentive to manage the woodland well.

## What the experts say

Mr Beeton says: "Farmers are moving away from the mindset of 'just growing cereals because that's what we do' and towards really looking at net margin and identifying the benefits of growing woodland on the fields that consistently perform the worst.

"There is no regulated market outside the government's Woodland Carbon Guarantee scheme but in the voluntary market there are plenty of big companies interested in carbon offsetting and it is an option for landowners to start holding those conversations now."

The scheme certainly deserves consideration from farmers looking at their options for any marginal or non-core agricultural land, says Mike Chapman, senior forestry manager at Savills.

"With the change away from direct payments and the growing recognition of the climate and carbon reduction and storage, securing long-term guaranteed income from trees should be welcomed," he says.

"It is unlikely a farmer would be disadvantaged in the Environmental Land Management scheme by going into a carbon arrangement, because the government will be working to avoid any

deterrent for either option's uptake.”

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See also: [Tips on how to fill the BPS cash gap on your farm](#)

## Woodland Carbon Guarantee pros and cons

### Pros

- ✓ Guaranteed long-term income stream
- ✓ Flexibility to find best price for units
- ✓ Market likely only to grow
- ✓ Can create bespoke plan in terms of tree species and management
- ✓ Nominal upfront costs – planning and establishment covered by grants or stewardship scheme
- ✓ Makes use of unproductive agricultural ground

### Cons

- ✗ England only
- ✗ Forestry Commission is under-resourced and overwhelmed, say advisers
- ✗ Schemes from first auction in January 2020 have not yet planted any trees – slow progress
- ✗ Process of planning and securing funding takes a long time – about eight months – and then can only plant in winter
- ✗ Scheme only covers new woodland – there is hope this will change in future to reward increased carbon storage through better management of existing woodland
- ✗ Turning agricultural land into forestry is a permanent change that cannot be reversed

## Case study: Woodland Carbon Guarantee

John and Catherine Mair farm about 300ha of Grade 3-4 land in Cambridgeshire. A particular challenge for them is blackgrass and the cost and effectiveness of its control.

The couple worked with Greg Beeton to successfully enter the first Woodland Carbon Guarantee auction and said:

“We have increasingly realised that traditional agriculture practices have become less sustainable, both financially and environmentally, and other options need to be evaluated for future generations.

“Growing woodland through a carbon sequestration project was a main driver, but also allows us to develop an environmentally sustainable wildlife and education hub for the local community.”

Mr Beeton said the family identified the worst fields for blackgrass and have chosen those for woodland creation, leaving a still sizeable arable operation but just focusing on the best land.

“They are very forward-thinking and open to environmental measures on the farm,” he says.

“Their son is coming into the business so they are planning for the future and they want to ensure everything is profitable and are preparing for the loss of BPS.

“Woodland creation is helping them minimise risk and build a portfolio of income streams.”

## Private market

For those outside England who cannot sell directly to the government via public auction, a private market is on offer.

Louise Alexander, senior associate at Scottish agent Galbraith, says the Woodland Carbon Code's website provides a list of the registered projects selling carbon for buyers to approach.

Currently, these private buyers are bigger companies looking to offset carbon as part of their corporate responsibility and public perception goals, such as oil companies, she says.

“The price is up to the buyer and will depend entirely on what they are looking for,” Ms Alexander says.

“For native woodland in Scotland, the average value is about £7-£10/unit for 300t/ha.”

As with England’s scheme, farmers are not tied to one buyer and can sell at each verification interval.

However, another difference for projects outside England is that the farmer should register with the Woodland Carbon Code after the trees have been planted.

See also: [Exit payments: What should farmers do to prepare for 2022?](#)

## What about tenants?

Tenants are able to enter both the Woodland Carbon Code and the Woodland Carbon Guarantee as long as they have the landowner's permission.

There may be a clause in the tenancy agreement that states the landlord reserves the ownership rights for trees – if so, as well as obtaining permission, it may also be worth requesting a variation to or removal of this.

However, advisers acknowledge it is not straightforward for a tenant to enter a long-term contract without the security of an equally long-term tenancy, meaning short farm business tenancies are a particular challenge.

“There needs to be more conversations between landowners and tenants about long-term income streams,” says Mr Beeton.

“As the trees grow and sequester more carbon, the farmer receives more money, which peaks at about 25 years, so tenants won't see the benefit from a short-term agreement.”

## Advice on selling carbon units

- Look at your farm as a whole and consider what you could do on poorer, less productive ground
- Get registered with Woodland Carbon Code and in the system as soon as possible so you are ready for when buyers are looking or when the next auction is due
- When seeking advice, choose a firm that is transparent, professionally governed, and has the capacity to take on assisting with the application – there is a lot of paperwork
- Carbon capture drops off so don't get tied into too long a contract
- To be successful in a tree planting grant application, the project must prove additionality (increased carbon sequestration) and that it would not go ahead without funding



without funding

Source: Louise Alexander and Hugh Townsend

## What else is possible in the future?

### Peatland

The Committee on Climate Change estimates 55-70% of peat (0.7-1.1m hectares) needs to be restored by 2050 to meet climate change targets.

The Peatland Code – a voluntary certification standard for UK peatland projects – launched in 2015 but has so far led to limited opportunities for farmers to benefit financially, with advisers saying the market is not yet set out.

In general, the aim is for dried-out peatland to be re-wetted and for landowners to be paid for improving it, rather than just having it.

### Seawater farms

Seawater Solutions advocates building farms that do not need fresh water, using instead the almost limitless resource of seawater.

Their projects include restoring saltmarsh, which they say can capture 30 times more carbon than rainforests.

However, it's not yet clear how landowners could be financially rewarded for this or for how many farms it could work.

### Farm carbon trading

Another private market option for farmers is being paid for sequestering carbon through crop management.

A small number of individuals are already carrying out intensive management of their soils with special crop rotations to improve carbon storage, says Townsend Chartered Surveyors.

These types of unit are not at present part of a verified scheme, but could be sold to companies voluntarily choosing to offset.

## Farming and soil carbon code

There is no farming and soil carbon code in the UK equivalent to those for woodland and peatland.

However, with an emphasis on changing agricultural practices to tackle climate change and the different benefits set to be rewarded via the new Environmental Land Management scheme, this could be on the way.

According to the Green Alliance, the five types of land management that have the most potential for large scale carbon reduction in the UK are: growing legumes in rotation; converting arable to grass, with no additional livestock; agroforestry; leaving crop residues on the surface; and planting cover crops.

### Case study: Australia

Australia's Carbon Farming Initiative was the world's first national scheme to regulate the generation and trade of carbon credits from farming and forestry.

It began in 2011 and has since been integrated into the country's Emissions Reduction Fund.

Landowners generate Australian Carbon Credit Units through an approved method and then trade credits in voluntary and compliance markets.

Credits can be gained for implementing certain management plans: nutrient management, soil acidity management, new irrigation, pasture renovation, stubble retention and conversion to pasture.

Farmers must be able to show that the management actions are markedly different from their land management over the previous 10 years.

*Source: Green Alliance*