



► There are already incentives available for planting trees and creating new woodland in order to reduce emissions

James Dobson / National Trust / PA

Cost and opportunity if carbon quota plan becomes a reality

WE have no doubt that there are all sorts of interesting nuggets of policy communication buried within the Government's latest Net Zero Strategy document.

Agriculture certainly has its fair share, from making explicit the intention to extend environmental permits to dairy and "intensive" beef farms, to an apparent drive for us all to grow more miscanthus as part of something called the Biomass Strategy 2022.

However, hiding at the bottom of paragraph 34 of chapter three was something perhaps more interesting than either of these: "We will continue to review potential carbon pricing strategies for land use sectors, including the potential role for voluntary or compliance carbon markets to support cost effective decarbonisation for the sector."

Most farmers are now aware of the possibility of trading carbon offsets. This means either planting some trees, improving some peat and, hopefully in the next couple of years, reducing the tillage of your soils to sequester carbon. This then gets registered as a carbon credit, which can either be kept for one's own use or sold on to offset someone else's emissions. What is being proposed in the paragraph above, though, is rather different.

Phrases such as "carbon pricing" and "compliance carbon markets" suggest we may see what is known as "emissions trading". This is already in place for some industries in the UK

Six years since milk quotas were abolished, could farms soon have a carbon quota? Land agent and surveyor expert **Hugh Townsend** explores the possibilities



and globally. The way it works is that annually everyone in the affected industry is allocated a number of "Emission Permits" by the Government. Then each year, they must declare how many tonnes of carbon (or equivalent) they have then emitted for that year, and they will be penalised if they then do not also surrender an equivalent number of the permits. If they do not need all of their permits, however, they can sell the excess to businesses which do not have enough for that year.

How many permits get allocated annually is based on the average performance of the most environmentally friendly businesses in that sector, but the allocation will not be enough to cover all emissions in the sector if environmental performance across the sector does not improve. To avoid penalty, businesses must either make sure they are emitting less than is allowed by their Government-issued permits, or buy extra permits from another business who does not need all of its own for that year. The total number of permits in circulation will decrease each year as Government

permit issues reduce, pushing up the price of permits so making it more cost-effective to reduce emissions.

This could mean that if this policy goes ahead there will be a new market for farming with a familiar face. Whereas before farmers bought and sold permits for their total milk output, milk quota, this new market would instead be a "carbon quota". There are several matters about how this would work which remain unclear at this stage, such as how the Government would decide how many permits to issue, how they would measure farm carbon outputs and exactly how permits would be traded between farms.

One example that will need to be sorted out is whether for example low-input and output organic arable production would be directly compared with conventional cropping in terms of permit allocation. If so, that would encourage all farmers away from conventional production, with clear implications for food security and increased costs for the industry. On the other hand, if the two do not share a market, low-input producers would validly feel frustrated that they cannot benefit from the tech-

niques they deem to be lower in emissions.

We must also remind ourselves that this is just a possibility discussed in a very long-term strategic document. It may well come to nothing at all. However, if it does materialise, we have both a cost and an opportunity. For the farmers measured to have the best environmental performance, there would be real money to be made from selling these permits. However, for farmers who cannot, or choose not to, move in whatever direction Government measures suggest, there could be a heavy and rising cost from annual permit purchases.

To prepare for this, we advise careful consideration of what is on your farm that could help reduce carbon emissions and we can provide this as part of our Natural Capital farm assessment. Otherwise, the higher standards of the Sustainable Farming Initiative (SFI) pilot may also be a good start. It may also be wise to look again at the possibility of woodland planting on less-utilised land: the credits this produces may be able to offset against these requirements for many years, so saving significant money in the long term.

We watch with interest for further developments.

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