FARMING

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> A combine harvester collects grain in a field in the Odesa region of southern Ukraine in June

Plenty of reason for optimism about carbon credits market

Is now the time to sell carbon credits? Land agent and surveyor expert **Hugh Townsend** explores the question

WE are for the most part unqualified to comment on the implications of the Russian invasion of Ukraine.

There are two aspects of Russian activity which may affect UK domestic policy in a way that in turn affects carbon markets.

First is the reduction in Ukrainian agri-food exports. Russia has, in their attempt to choke Ukraine's economy and create division among its allies, put in place a naval blockade of Ukrainian ports. This has frustrated normal exports of Ukrainian grain and sunflower oil. This is on top of the negative impacts of the Russian invasion on Ukraine's agricultural production. Russia has shelled Ukrainian land, taken Ukrainian agricultural machinery and generally brutalised parts of the Ukrainian populace. All of these will inevitably play a part in an overall reduction in Ukrainian agricultural productivity.

As we know Ukraine in peacetime is something of a global agricultural powerhouse, providing 6.8% of total barley production, 4.3% of wheat production and 30.6% of sunflower oil. There is therefore concern that Russia will severely impact global food security in its reduction of what Ukraine can both produce and export.

This could mean, in turn, that we may see policies by the UK Government to increase local agricultural production to provide greater security. There are a few ways this could happen. Currently in its Food Strategy the Government has focused on a drive to encourage horticulture in particular. However, if woodland and peatland carbon are seen to be taking too much land out of production, steps may be taken to prevent this. If the Government wishes to improve self-sufficiency, and the Food Strategy already includes some small suggestions in this direction, it may wish to reduce drivers for land being removed from production. The easiest targets will be measures they themselves have put into place: ELMS and the Woodland and Peatland Carbon Codes.

Secondly, as part of a possible long-term strategy of geopolitical intimidation, Russia is increasingly either withholding or threatening to withhold supplies of natural gas to countries attempting to block its ambitions in Ukraine. Targets have included Germany, France, Italy, Poland and Austria, among many others.

The UK buys little gas or oil from Russia, but it does purchase substantial quantities on international markets more generally. International prices have increased substantially due to Russia's invasion. Our Government may therefore decide to protect itself from this volatility by increasing domestic fossil fuel production or at least reducing the penalties for fossil fuel use. One way it could do this is by loosening the UK Emissions Trading Scheme, which requires businesses in some of the most polluting industries to have permits for the carbon they emit. These permits are issued directly by the Government, so the Government controls the number in circulation. They can also be traded between businesses. If the Government issues more of these permits than previously, emissions will rise but the overall cost of energy use will decrease because permits should become less expensive, so helping these businesses weather the current storm and perhaps also reduce inflation by bringing down their costs.

One extra value in carbon credits is the hope that they may contribute to this trading scheme. Currently woodland and peatland carbon credits are voluntary. They can show on a business's public carbon accounts and also be used for marketing. However, they cannot currently help with actually meeting any rules for emissions reduction.

A recent consultation by the Government suggests this hope may soon be realised. In "Developing the UK Emissions Trading System", which ran from 25th March 25 to June 17 this year, the Government suggested the long-anticipated idea that "greenhouse gas reductions" such as woodland and peatland carbon credits could be used in place of emissions permits under the Emissions Trading System. "Hope value" for inclusion in the scheme has long been a driver of credit values, and we may now begin to see this potential be realised. However, if this was counteracted by, or even replaced with, an overall increase in permit numbers, this would potentially drive credit values back down.

> Tree planting as part of a new area of agroforestry in Cambridgeshire Mike Selby/NT

At the same time, all of this must be considered in an even wider context. The Government still has a legally binding target to reach net zero by 2050. The strength of the environmental feeling among the public shows no sign of waning, and the corporate world appears as eager as ever to broadcast claims of environmental credentials. Whatever pressures might be affecting them, the Government has not walked back its tree-planting commitments. Indeed, they released a new leaflet championing the merits of planting woodlands for carbon just three weeks ago. That the "developing the UK Emissions Trading system" consultation has taken place at all is a further positive sign, especially given that it opened more than a month after Russia's latest attacks against its neighbour. Fundamentally, regardless of how long the war lasts and how it affects the global supply of food and fuel, global warming remains an international problem. We can therefore expect at least some continued investment in the policies needed to address it.

In other words, this is a time for greater maturity for the carbon credit market. While we cannot make predictions about what will happen next, the previous truism that credits will go up in value may need to be qualified, even if true long term. Our long-term direction of travel seems still to indicate carbon credits will become more important, and so more valuable. However, the road to get to this future now appears a little bumpier. There will be times when the market goes down as well as up. There is still plenty of reason for optimism about the market, but this should perhaps be a little more cautious than before. Therefore, for those of a cautious nature, there is maybe more of an argument for selling now than was previously the case.

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