

Monthly Report

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July 2021

CarbonStore's First Transaction secures a Fair Price for Both Buyer and Seller



Our transaction delineates the nature of future woodland carbon-related transactions. Both parties clearly understood the transaction price, they discussed and agreed the access, signage and marketing rights and they constructively and proactively engaged in the legal contracts. The result was two satisfied counterparties.

Selco Builders' Warehouse, the buyer, was able to erect a professional and stylish sign visible to all motorists driving on the busy road adjacent to the site. They also captured compelling drone footage of the planting work in action to complement their marketing efforts. Finally, we arranged a tour of the plantation for Selco's CEO and his colleagues to better understand the forester's work in managing the woodland.

Meantime, the woodland owner secured much more than the meaningful sum of additional income. As a client of Tilhill, which is managing the woodland on his behalf, the woodland owner was able to pass on many of the risks associated with selling PIUs as Tilhill's insurance was willing to accommodate this additional responsibility. We believe this agreement establishes a new and important precedent in the woodland carbon market.



Recent Pricing Trends in the UK's Woodland Carbon Market

While prices for woodland-based Pending Issuance Units (PIUs) have increased markedly over the past 6 months, they appear to have stabilised since May. We understand that firm offers are available at £10 per PIU to landowners from certain brokers. With associated costs and fees this implies that companies could be paying £15-£16 for PIUs to said brokers.

This offer price to landowners seems relatively low given other quotes reported across the market. A productive conifer woodland near Auchterarder has been offered £13 per PIU and a native scheme near Pitlochry secured £16 per PIU. In the Scottish Borders, we have recently completed a transaction priced at £12.50 per PIU for a mixed woodland comprising both productive conifers and broadleaves.

The Pressure to Achieve Net Zero Creates a New Price Driver



With certain companies willing to pay a premium for earlier PIU vintages (i.e. those which will be verified as WCUs before 2050), a new dynamic is entering the market. Indeed, we understand that offers around £30 per PIU are available for PIUs being verified before 2030. By reflecting the growing urgency among companies to achieve net zero, this is an inevitable development.

The Woodland Carbon Code Addresses Additionality

The volume of registrations received by the Woodland Carbon Code before its 30th June deadline neatly illustrates the growing interest in the woodland carbon market. As discussed here and elsewhere, any woodland planted within the last two years had to register with the Code before the 30th June to be eligible for carbon funding.

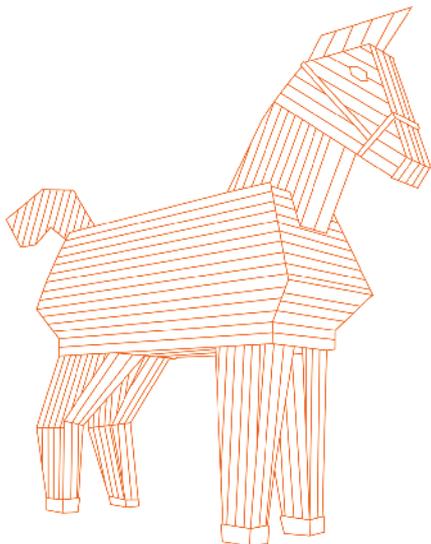
Between its inception (in 2011) and March 2021, approximately 900 newly planted woodlands were registered with the Code. Since then, a further 350 new projects have been registered as landowners across the UK rushed to leverage a potentially lucrative opportunity.

However, this has created a new challenge for the Woodland Carbon Code: How can they maintain the principle of “additionality” and show that woodlands which were registered retrospectively (i.e. after planting) would not have proceeded without carbon funding?

The Code now requires any such schemes to provide evidence that carbon funding was discussed and calculated before planting started (in addition to completing the additionality cashflow spreadsheet). This is a sensible approach. For companies buying PIUs and WCUs and for the future success of the Code, it is essential to protect the integrity and credibility of carbon credits authorised by the Code.



Beware of Trojan Horses in the Dissemination of Risk



We discussed the importance of robust and comprehensive legal contracts in our previous update and this issue further illustrates the need to partner with a reputable organisation when selling or buying PIUs and/or WCUs. Such an agreement, where PIUs are sold according to their vintage date, must be properly codified.

After all, if 60% of a woodland is burnt in year 14, how do we know which PIUs have gone up in smoke? These risks need to be comprehensively addressed in legal agreements. Some companies are reportedly accommodating these risks internally and any buyer or seller using such a counterparty should fully understand the real and substantial risks to which that company is exposing itself.

A New Report on The State of Forest Carbon Finance



In late June, Forest Trends, a US-based organisation collaborating with the World Bank, released its annual report on “The State of Forest Carbon Finance.” Although written from an international perspective, the report offers some useful and relevant indicators for the UK’s market for woodland carbon. Important conclusions from their report include:

- 23% of all anthropogenic carbon emissions are reportedly due to inefficient and destructive use of forests, farms, and fields. In addition to the Committee for Climate Change’s emphasis on tree planting in the UK, this also explains their keenness to consider new farming methods and to manage more effectively our existing woodlands.
- The Taskforce on Scaling Voluntary Carbon Markets, being spearheaded by Mark Carney, estimates that global Voluntary Carbon Markets must grow 15-fold by 2030 and 100-fold by 2050 in order to meet our carbon reduction targets outlined in the Paris Agreement. With UK-based Woodland Carbon Units categorised as Voluntary Carbon Offsets, this target suggests fund flows into the UK’s woodland carbon market will rise significantly in coming years.
- Current prices for REDD (Reducing Emissions from Deforestation and Degradation) projects range between \$3-\$4 per credit. The report argues that “prices must materially increase from the current range” to ensure that the supply of credits matches demand. Similar arguments are being made regarding UK woodland carbon credits.

You can read the report [here](#).

For more information just get in touch:

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