

# Monthly Report

www.carbonstoreuk.com

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## The Number of Registered Projects Rises Steeply

As a fast-evolving industry, the market for woodland carbon continues to be influenced by passing, but significant, winds. As we have noted before, interest in the Woodland Carbon Code has expanded dramatically; demand for PIUs and WCUs has increased but the number of woodlands registered with the Code has been especially marked.

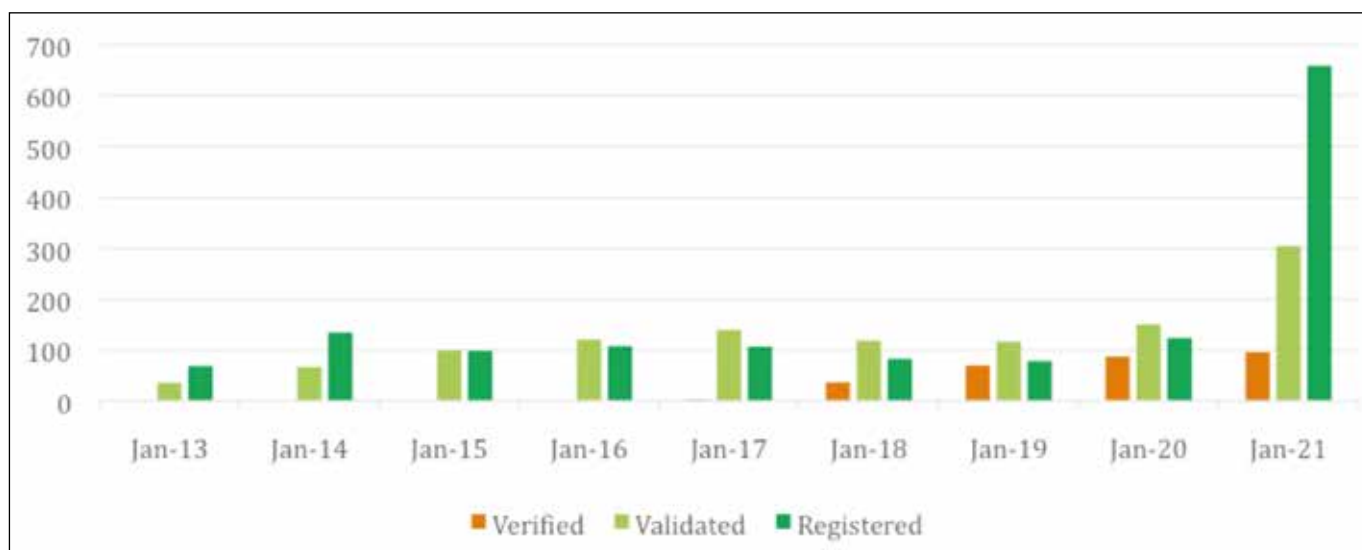


Chart 1: Number of Projects Registered with the Woodland Carbon Code (2013-2021).

As chart 1 illustrates (see above), the number of schemes being registered with the Code rose over 5x year-on-year in the 12 months to January 2021. As a result, there are 7.8 million PIUs currently 'awaiting validation' (see chart 2 over the page) i.e. their projects have been registered but they are undergoing the various audits which are necessary before the PIUs can be issued on the UK Land Carbon Registry.

## The Number of Registered Projects Rises Steeply (*continued*)

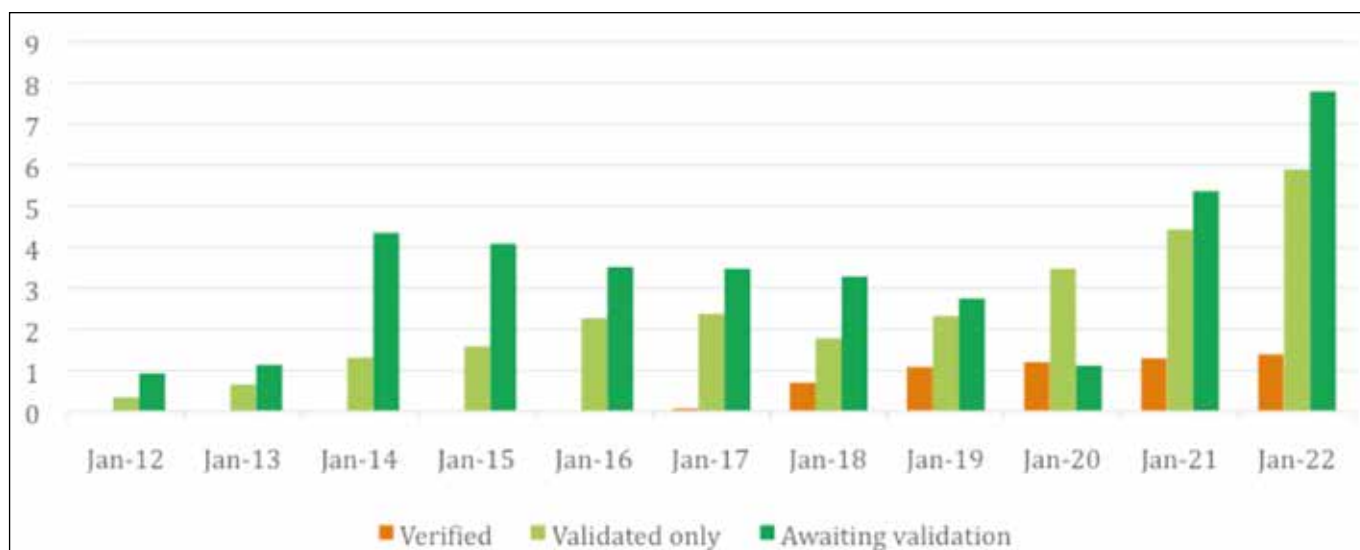


Chart 2: Projected carbon sequestration by Woodland Carbon Code projects in the UK (mn tonnes)

With these audits taking 4-6 months to complete there is a solid pipeline of supply building up along the system. Moreover, the Woodland Carbon Code allows projects to undergo validation within 3 years of being registered. It is a time-consuming process gathering the necessary documents so many of the registered projects are yet to submit themselves for validation.

## Despite Long-Term Supply Growth, PIU Availability is Tight

In time, and with more schemes being registered each month (especially with the recently announced and valuable England Woodland Creation Offer now available), supplies of validated PIUs will increase. However, the long lead time between planting trees and receiving the PIUs is an important factor which is temporarily limiting supplies of validated PIUs.

This is an important dynamic which, by limiting supplies, is influencing the price of PIUs. Prices are clearly rising. Recent conversations have revealed various pricing points. Woodland owners in Scotland are currently being offered between £8 and £10 per PIU by certain operators in the woodland market. Meantime, we understand that companies are being quoted between £15 and £20 per PIU.

## Despite Long-Term Supply Growth, PIU Availability is Tight (*continued*)

This implies that certain 'middle market brokers' could be achieving a mark-up of over 100% on certain transactions. CarbonStore's competitors appear to be making very substantial profits when they purchase PIUs from landowners. The transparent nature of CarbonStore's business model means that we are able to offer landowner's better prices for PIUs than our competitors and, for anyone contemplating the sale of their PIUs, a conversation with us is certainly in their best interests.

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## Encompassing the Wider Values of Natural Capital

Returning to the discussion on prices, we also understand that one recent entrant to the market is adopting a more holistic approach to valuing PIUs, attempting to combine the ecological, hydrological, and environmental values of their planting projects.

They also appear to be focused on larger-scale projects. As a result, they are offering quotes of £35 per PIU with a minimum order size of 30,000 units. This is an important and forward-looking effort to reflect the wider value of the natural capital growth from woodland creation.

As is well known, woodland creation enhances the value of Natural Capital in many ways. For example, it improves water quality, it sequesters carbon, it prevents soil erosion and it amplifies biodiversity. Quantifying, valuing and amalgamating these assorted benefits is an essential step both for farmers and landowners to reap the full benefits of any planting schemes and for the government to reduce the high level of subsidies that are currently necessary to incentivise tree planting.



# The Woodland Carbon Code Deliberates 'Additionality'

The level of these incentives and the woodlands which should be eligible for carbon funding is a key deliberation for the Woodland Carbon Code right now. The combination of carbon funding and timber income, which the Woodland Carbon Code is enabling, is stimulating a significant upturn in planting interest across the UK.

However, the Code needs to distinguish between which of these woodlands would be getting planted anyway and which are reliant on carbon funding for their go-ahead. This distinction is central to the additionality test which is a core principle of all offsetting schemes globally; Would the carbon sequestering activity be occurring irrespective of carbon funding?

In practice, this is a very difficult question to answer. At the moment, major institutional investors are showing significant interest in the returns which, due to carbon funding, are now achievable from buying plantable land.

Carbon-related income, being realisable soon after planting and therefore not subject to the long wait and the heavy NPV-associated discount attributable to timber income, has transformed the investment potential of buying land with planting potential.

Such projects are, therefore, inherently additional; They would not be occurring without carbon funding. However, the Woodland Carbon Code's current proposals for the additionality test risk rendering many conifer-oriented schemes ineligible for carbon funding.



# The Woodland Carbon Code as a Potential Force for Universal Good

As discussed earlier, interest in the Woodland Carbon Code has multiplied over the past 12 months. Indeed, by encouraging private sector companies to bear a meaningful portion of the costs of woodland creation while simultaneously providing the necessary financial incentives to landowners to plant trees, it could play the central role in achieving our ambitious planting targets.

If implemented carefully and judiciously, it could have many wider benefits. We could restore many of our landscapes to their native conditions, we could amplify the beauty and the wildlife of our countryside and we could vanquish our biodiversity crisis.

At the same time, we could also ensure sufficient resources exist to build our future homes in which timber, as the most sustainable building material available, will be a central component. Indeed, planting productive conifers is a key recommendation of the Committee for Climate Change who, in their January 2020 report, **Land Use: Policies for a Net Zero UK**, wrote:

*“Sustainably managed forests are important for reducing emissions across the economy. They provide a store of carbon in the landscape and harvested wood can be used ... as wood in construction, creating an additional stock of carbon in the built environment.”*

We must therefore tread carefully when deliberating additionality. The Woodland Carbon Code is rightly keen to maintain its credibility; Without that, the value of PIUs and WCUs will diminish. However, we must also realise that poorly designed policy could destabilise and discourage powerful but still incipient demand for planting. We will monitor developments closely on this.

# Conclusion

The market continues to show classic symptoms of infancy. PIU prices are rising and optimism surrounding their continued ascent is high. Government policy is evolving rapidly: In England, generous planting grants have just been announced. Meantime, in Scotland, where similar policies have already proved successful, early signs of the reverse are emerging.

Options for landowners wishing to sell their PIUs are widening and, with CarbonStore's growing success, they are no longer price takers, dependant on quotes issued to them by a duopolistic market. Instead, their PIU prices can be determined by supply and demand in the market.

Finally, the regulations governing carbon-oriented woodland creation are also changing. In June, the Woodland Carbon Code announced new rules for the timing of projects' registration. They are now supplementing those by reassessing the criteria on which their eligibility for carbon funding is based.

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