



18<sup>th</sup> January 2007

## **Voluntary Carbon Off-set Market Inquiry**

### **Memorandum by Forest Carbon Limited**

Forest Carbon brokers bespoke and additional off-set schemes for corporate and other organisations.

We would make the following observations in respect of your current consultation on voluntary carbon off-setting.

We do believe that there should be a general and compulsory accreditation scheme for UK carbon off-set schemes, although we make our comments with particular knowledge of and experience in forestry off-sets. A compulsory regulatory regime should not be necessary: the market can sort the good from bad and should understand the difference between accredited and non-accredited off-sets, but in this instance there is insufficient knowledge to enable buyers to make informed decisions. This situation has improved of late, but nonetheless an accreditation system, accompanied by appropriate educational activity, is essential.

Any scheme should be made as simple as possible for sellers to adhere to and gain accreditation from, and the onus should be on transparency of information with respect to the off-setting claims of the scheme. There are obvious universal requirements for any off-setting scheme, drawn from the principles of the UNFCCC protocols and accords, namely those of: additionality, permanence, biodiversity and socio-economic impacts, and leakage. In addition to these principles there will also be the requirement to monitor and verify that the claimed sequestration/reductions have occurred and will continue to occur for as long as is contracted.

Forestry carbon off-setting schemes hosted in the UK will face fewer of the problems with respect to socio-economic and biodiversity impacts due to the strict regulation of the industry in the UK. Many forestry off-sets in the UK are co-funded with Forestry Commission Woodland Grant Scheme (WGS) money, with carbon finance being the marginal income needed to give a positive NPV and therefore incentivise the landowner to go ahead. Any new planting which is done in conjunction with the WGS will have to meet the standards of the UK Woodland Assurance Scheme (UKWAS), and will therefore be a well managed and appropriate undertaking. We would propose that the simplest way of assuring the existence of the forests that claim to host the carbon sequestration claimed for such schemes would be to add an additional section on this to the UKWAS accreditation and monitoring process, and to bring schemes selling sequestration rights but not using WGS funding under the UKWAS umbrella. The science of how much carbon is sequestered would be formulated by another independent body (Forest Research perhaps) and fed into the UKWAS monitoring to produce an outcome. As long as the carbon sold for a given site was not more than amount verified then there should not be a problem, although we believe that the accreditation system should specify an



insurance margin (ie that no more than  $x\%$  of the anticipated sequestration for a given project may be sold, in case of contingency and based on a standardised matrix of various criteria such as, for example, species, proximity to roads and location). Transparency here would mean that the market would come to know which vendors were cutting a fine margin with respect to the insurance margin.

We have entered into discussion with ConFor, the Confederation of Forest Industries, about the compliance role they could play in the forestry off-set market. Ideally we envisage a situation where they would verify our off-sets periodically and hold central copies of contracts, project documentation and site plans, creating complete transparency in our schemes.

Coming back to the first of the principles mentioned above, additionality, we believe that the clear definition of this is essential. Demonstration is a little more difficult to standardise if the accreditation is not to be so difficult that it blocks entry to the market unreasonably. (Anybody that has read the Kyoto Clean Development Mechanism additionality tool will confirm what a formidable exercise it can be to prove this for compliance purposes). The definition of additionality must be clear and prominent in the documents and publicity about an accreditation scheme in order that consumers understand it, and ask the right questions of off-set sellers. A straightforward financial analysis would probably be as far as it could be taken with respect to proving additionality: lifecycle income, lifecycle costs, opportunity costs, all discounted using an appropriate discount rate (perhaps rates that are supplied by the accreditation body, and vary per sector, to prevent financial engineering making the additionality case). It would be impossible to prove the behavioural additionality case with any certainty (i.e. would  $y$  have planted his sub-economic woodland for altruistic reasons even without carbon funding?)

Permanence, or lack of it, has long been a thorny issue in forestry carbon sequestration. Forest Carbon has to date brokered deals around what we would consider to be permanent forest sinks – those that have no future commercial value and are planted for non-commercial reasons on a break-even basis by landowners who have a long term commitment to the forest. These forests reach dynamic equilibrium after, say, 60 years and we would not sell any sequestration beyond that point. We do also believe however that there is scope for using commercial planting as a vehicle for carbon off-setting. Here the additionality case becomes more critical, with the need to assess the future value of the timber to assess the whether or not the NPV of the proposal is positive, but if this is negative then the lack of permanence of the planting may not be an obstacle due to the need to re-stock if a felling licence is to be issued. There could be no sale of carbon credits for any re-planting however, and an accreditation scheme would need to monitor this (again perhaps through UKWAS).

We believe that the science is strong enough in the areas of afforestation and forestry management to allow credible carbon off-set trading, with the proviso that, as stated above, there is a minimum insurance level (i.e. a minimum  $\%$  of the anticipated sequestration of a



given scheme should be held as a reserve against contingency or less than anticipated sequestration).

Forestry off-set schemes in the UK are sustainable, both environmentally and economically. Carbon sequestration accounts for only around 10% of the non-market benefits of forestry in the UK<sup>1</sup>, meaning that carbon finance produces considerable environmental and socio-economic co-benefits. Carbon finance also makes the significant, marginal, contribution that makes sub-economic planting viable and ensures that schemes go ahead that would not otherwise have done so.

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1. Willis K.G., et al *The social and environmental benefits of forestry in Britain.*, (2003) Report to Forestry Commission from Centre for Research.