## Environmental Trading: Interest from Landowners and Investors

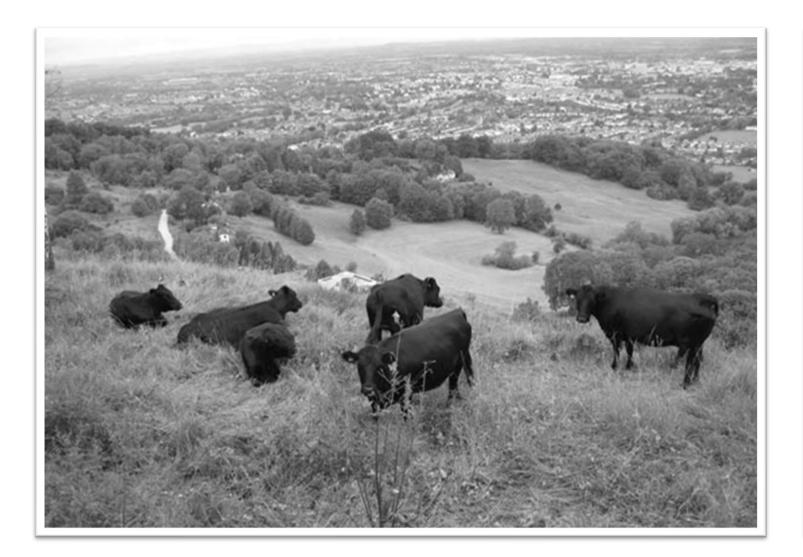
Dartmoor Hill Farmers Project

2 March 2022





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## **Traded Credits**

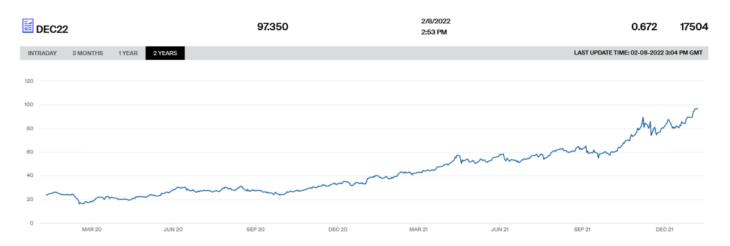
Credit	Date	Auction/ Exchange	Volume	Price/unit	Projects	Project types
<b>Australian Abatement Credits</b>	14/10/2021	Α	6.8m tonnes	AUD 16.94	24	vegetation, agriculture, soil
California Carbon Credits	24/11/2021	Α	68.6m credits	USD 28.26	-	livestock, rice farming, forestry
<b>UK Woodland Carbon Credits</b>	01/08/2021	А	331 hectares	GBP 18.62	19	woodland
<b>EUETS Carbon Credits (Futures)</b>	31/01/2022	E	-	GBP 89.74	-	various
UKA Carbon Credits (Futures)	31/01/2022	E	-	GBP 84.72	-	various
Global Nature Tokens	31/01/2022	E	-	USD 7.86	-	farming, forestry, other land
Global Nature+ Tokens	31/01/2022	E	-	USD 16.13	-	farming, forestry, other land
REDD+ Credits (VER)	31/01/2022	E	-	USD 14.40	-	forestry
Nature Restoration (VER)	31/01/2022	E	-	USD 14.40	-	farming, forestry, other land



#### **EU ETS Credits**

The EU Emissions Trading Scheme (UK ETS) has been operating since 2005. It applies only to energy-intensive industries that directly consume hydrocarbons. Over time this has expanded from factory-based industry and energy generators to include aviation.

For our purposes this is a useful indicator of sentiment, and a benchmark of other carbon-based environmental instruments. Credits deliverable in Dec 2022 have risen fivefold in the last 2 years (Source: ICE)





#### Other Overseas Markets

California's carbon emissions trading program covers power plants as well as manufacturers, refiners, and other polluting industries. Unlike the UK and EUETS they allow for offset / sequestration e.g. Forest Projects and Livestock Projects (methane management).

The RGGI (pronounced "Reggie") is a carbon emissions trading effort among 11 states in the northeast of the United States, covering power producers only.

As with the EUETS they are both "cap and trade" systems.



#### **UK ETS Credits**

A UK Emissions Trading Scheme (UK ETS) replaced the UK's participation in the EU ETS on 1 January 2021. It broadly follows the same rules. There may be some potential for the UK to revise the regulations to allow for agricultural projects, following the Californian example. This will require careful lobbying and well managed demonstration projects.

Meanwhile, there is a primary market (in practice open to energy intensive industries and airlines) and a secondary market where non-obligated traders are active.

To trade, a UK investment firm would need Part 4A FSMA permission and trade authorisation under the Markets in Financial Instruments directive (MiFID).

A commodities trader may have a FSMA regulatory exemption enabling carbon trading.



## Voluntary Credits

Voluntary credits differ from the ETS etc. They are premised on sequestered carbon (not reductions against an accounting baseline).

They have been adopted by consumer-facing corporations for brand marketing. In the last two years, companies as diverse as Garnier, l'Oreal, Coutts, TSB, Brewdog, Eurostar, Procter & Gamble, William Grant & Sons, and Fossil have engaged in tree planting related projects and associated carbon offset claims.

As PLCs' own investors pressure them to meet the recommendations of the Taskforce on Carbon-Related Financial Disclosure, we will see more projects like abrdn's 2021 <u>investment of £7.5m</u> restoring 900 hectares of forest and 150 hectares of peatland.

Although there is limited regulatory enforcement around sale under bilateral agreements, the CMA and the ASA are starting to pay attention to the potential for mis-selling. This means a "wild west" of voluntary carbon may be avoided.

**Investor:** Standard Life Investments Property Income Trust

**Project area:** 1,447 hectares

Investment value: £7.5m

Current ecology: upland rough grazing and open moorland

New ecology: 956 hectares natural broadleaf trees (1.5m

trees); 115 hectares restored peatland; 271 hectares open land

Carbon sequestration: 195,630 tonnes to 2060

Carbon to be offset against: SLIPIT's residual embedded and

operational carbon (73%)

Offset standard: Gold Standard

Finance source: corporate balance sheet, grant funding (for

planting)

Comment: "We believe that being an early mover will give the company an important advantage in future costs for offsetting as society moves to net zero by 2050. Although the focus is on carbon offsetting the opportunities for wider ecological and net biodiversity gain are also being explored, which is important given changing legislation around development in the UK".

SLIPIT fund manager Jason Baggaley

Case Study: SLIPIT (abrdn)



**Investor/Trader:** Ecotricity

**Project area:** 24 wind parks and solar parks

Investment value: £90,000

Current ecology: various

New ecology: woodland

Carbon sequestration: tbd

Carbon to be offset against: Ecotricity's residual embedded and operational carbon (100%) and

customer carbon liabilities

Offset standard: tbd

Finance source: corporate balance sheet, grant funding

(NEIRF)

**Comment:** "Ecotricity's New Ventures unit received £90,000 of funding from the Environment Agency to identify and model woodland creation in a number of company sites. This could result in the creation and selling of woodland carbon to over 200,000 customers attracted by Ecotricity's reputable brand"

**Ecotricity Head of Sustainability, Gary Thomas** 

# Case Study: Ecotricity





## Voluntary Credits - Principles

For domestic trading purposes, investors will be looking for projects that follow the <u>ICROA</u> guidelines:

- Real:
- Measurable: quantifiable, using recognized measurement tools (including adjustments for uncertainty and leakage), against a credible emissions baseline.
- Permanent: in effect 100 years, and with an insurance mechanism against reversals
- Additional: must be a result of activities which achieve more than what would have occurred if the activities had not been carried out.
- Independently verified: to a reasonable level of assurance by an independent and qualified third-party.
- Unique: one credit per tonne carbon dioxide equivalent (CO2e) removed no double counting under different schemes. In practice the credits should be stored and retired in independent registries.



To discuss a carbon or biodiversity project, please register at www.camco.eco/sign-up

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