

UK ETS Authority:

Integrating Greenhouse Gas Removals in the Emissions Trading Scheme

Consultation:

Submission from the Agriculture and Horticulture Development Board (AHDB)

14 August 2024

AHDB

AHDB is a statutory levy board funded by farmers and others in the supply chain. Its purpose is to be a critical enabler, to positively influence outcomes, allowing farmers and others in the supply chain to be competitive, successful and share good practice. It equips levy payers with easy-to-use products, tools and services to help them make informed decisions and improve business performance. Established in 2008 and classified as a Non-Departmental Public Body (NDPB), AHDB supports the following industries: meat and livestock (Beef, Lamb and Pork) in England; Dairy in Great Britain; and Cereals and Oilseeds in the UK.

General comments on this consultation

On the face of it, the inclusion of GGRs into the UK ETS appears positive, offering options for levy payers trading GHG reductions credits through a much more regulated, robust, market could be a good thing. However, it would emphasise the current imbalance, putting small farm businesses against huge corporations.

The rigour of the regulated market should bring the quality up and enhance demand for voluntary schemes, but, that asymmetry of information needs to be addressed or else farmers will undervalue their assets and lose out.

Furthermore, if the price of GGRs in ETS are really attractive, it raises the debate about food production versus environmental good. Similar to the issues experienced with the inclusion of agriculture in the New Zealand ETS and the way it was subsequently removed from the trading scheme.

Consultation questions and AHDB's response

1. Do you agree with the Authority's principles for policy design?

We align with the Government's statement: 'It means that credits awarded and sold for benefits such as biodiversity, carbon capture or water quality must reflect genuine, lasting and additional environmental improvements, which are robustly verified and transparently documented, with no double counting or room for misleading claims or greenwash.'

In addition, our key concern on the emerging voluntary markets is asymmetry of information. Our concern is that our levy payers may sell valuable natural assets without the information to accurately assess their value

2. Do you agree the Authority should maintain the gross cap for initial integration of GGRs in the UK ETS (Option 2)? Please explain your answer.

Yes, we agree with the reasoning provided in the consultation document. There is significant uncertainty surrounding the deployment of engineered GGRs and the allowances they are expected to supply.

- Option 1 would limit the incentive to abate, as more allowance would be available and thus GGR would not contribute to emission reduction.
- With Option 3 the cap is reduced based on the anticipated supply of GGR allowances but considering the uncertainty of GGR deployment there is a lack of reliability of GGR allowance supply.
- With Option 2 the existing cap applies to GGR allowances and for every awarded GGR allowance a UKA is removed. This provides a grace period for the GGR supply and demand to be created.

However, it is important there is clarity over how long the initial integration period will be, and how progress will be measured and signalled.

3. How can the UK ETS sustain demand for GGRs in the long-term, taking into account the consideration of setting a new cap (Option 3)?

With the consideration of expanding the ETS's scope, altering the cap to Option 3 (with the possibility of implementing a negative cap in the future), and continuing until at least 2050, positive steps are being taken toward Net Zero with GGRs playing a key role.

Long-term market assurance is important, especially considering the long-term decision making involved with land management. The consideration of setting a negative cap would provide a way to sustain demand in a consistent manner.

According to the documents, cap Option 2 achieves considerable market stability with minimal impact on price of allowance and no increase in emissions. Because of this, fewer controls are suggested in the consultation with no need for demand and other linked market controls and reduced supply controls. Will the use of controls be reconsidered when the cap is altered from Option 2 to Option 3? When setting a new cap (Option 3) will there be a consultation on the path of integration, including demand, market, and supply controls?

4. Do you agree that GGR allowances in the UK ETS should be issued ex-post (i.e. after the removal has taken place and been verified)? Please explain your answer.

Overall, yes, to maintain confidence and integrity of the market and the allowance. However, flexibility and permitting the use of ex-ante will need to be considered, particularly high-quality nature based GGRs, as the carbon captured is not an immediate process. This also rings true for certain engineered GGRs such as enhanced rock weathering.

Could an ex-ante allowance be created through offtake agreement and then, following further verification, become ex-post, similar to the Woodland Carbon Code process of Pending Issuance Units and Woodland Carbon Unit?

It is critical that measurement is included in the process, so that we have a baseline and a re-measurement clearly showing the improvement. This builds integrity into the system.

5. Does the Authority need to consider any additional measures for the UK ETS to ensure GGR operators are able to arrange offtake agreements? If yes, please provide specific details of which measures should be considered.

There are some unanswered questions, that need to be addressed:

- Would an offtake agreement result in the seller receiving a lower price for the allowance? It is unclear how the price would be determined. Will it be based on the price of a UKA/GGR allowance at that moment in time?
- How will negative impacts on the development of GGRs from unforeseen circumstances that are out of one's control such as natural disturbances be addressed? If the event results in an increase cost to establish the GGR, will the seller be expected to cover the cost? How will this be dealt with when multiple actors are involved in the GGR?

6. Does the Authority need to consider any specific measures for smaller scale GGR operators, including smaller scale landowners if woodland is included in the scheme? If yes, please provide specific details of which measures should be considered.

Startup costs and administration burdens will likely be greater per unit of output for smaller scale GGR operators. It is important to note, a high-quality nature based GGR can only occur if the operator knows what their carbon emission and sequestration starting point is. This is especially the case for small scale landowner wanting to undertake woodland GGR. If carbon is not measured, steps cannot be taken to capture and store it.

To achieve net zero on a UK wide scale, farmers and landowners need to understand what carbon their land and operations are currently emitting and sequestering. Baselineing of the land should include taking account of carbon stored in soil, hedges and trees, as well as greenhouse gas emissions. This data will help drive change, forging a fairer and more resilient path towards becoming net zero by 2050, and gives integrity to the process.

7. Who should receive the GGR allowance? Please consider whether this would also apply for GGRs that involve multiple actors in the value chain and provide examples.

It is important that farmers and landowners receive their rightful share of the allowance or payment from the sale of the allowance. Standards and regulations need to be set by the UK ETS Authority prior to undertaking the GGR so that there is a clear understanding, and expectations can be met. This also links back to the clarity around responsibilities and expectations in the offtake agreement.

A framework on how best to address multiple actors' involvement could be informed by how multi-actor agreements are handled on other nature markets such as habitat banking agreement for Biodiversity Net Gain.

8. Should allowances from GGRs be differentiated from UKAs and, if so, how?

Yes, a distinction needs to be made between UKAs and GGR allowances. A GGR allowance is treated equally to a UKA in terms of reporting the allowances against carbon a company has emitted. Yet, whilst the UKA is considered neutral the GGR allowance is a negative emission. Thus, the environmental impact between the allowances differs greatly. It is important GGR allowances are recognised for their negative carbon value, whilst at the same time acknowledging the fungibility between the allowances. Moreover, a technology-specific GGR allowance would be preferred to support competition amongst GGR technologies and facilitate traceability of the carbon removal allowance.

9. Do you think that differentiated GGR allowances would attract a higher price than existing emissions allowances and why? To what extent does this depend on the degree of differentiation (e.g. a generic GGR allowance versus a technology specific GGR allowance)?

AHDB has no comment on this

10. Will differentiated GGR allowances encourage non-compliance or non-trading entities to purchase these allowances?

AHDB has no comment on this

11. What should the Authority's role be in facilitating a route to market for allowances from GGRs? The Authority's role is dependent on aforementioned decisions including allowance differentiation and cap setting.

The Authority should consider using revenue to kick start and support the initial setup, particularly the smaller scale GGR operators referred to in Question 6.

To bring integrity to the scheme each farm should be baselined to determine the starting point of net carbon for the whole farm business. The Authority should consider its role in ensuring this has taken place.

12. Do you agree that allowances should only be awarded to UK-based GGRs? We welcome views from all stakeholders including sector-specific considerations. Please explain your answer.

Yes. With the UK ETS focussing on reducing emissions in line with the UK's net zero goal, having GGRs UK-based is appropriate.

Some further points to consider:

- Does this scope apply to the sourcing of materials that the GGR requires? As that could become a barrier to the uptake of GGRs.
- Is it known how this will impact demand on land and progression of other environmental goals?

13. Do you agree with the proposed permanence framework of both a minimum storage period, a liability measure and a fungibility measure? Please explain your answer.

Yes, on a high-level they are the building blocks to be considered however the detail of it is lacking.

14. What minimum storage period duration should the Authority set for GGRs entering the UK ETS? Please explain your answer.

There is a lack of consensus on the storage duration of a carbon credit/allowance.

- Woodland Carbon Code projects have a running period between 30 to 100 years. From the 5th year onwards the woodland needs to be verified every 10 years¹.

¹ [Forest Carbon | The Woodland Carbon Code | UK government backed standard](#)

- The Integrity Council for the Voluntary Carbon Market's minimum storage period for a carbon credit is 40 years and there are indications ICVCM will in its next iteration of their framework increase this to 100 years^{2 3}.

All GGR mechanisms have different manners of storage thus different risks and chances of leakage or reversal. We question whether all GGR allowances should be expected to have the same (minimum) storage period, or whether minimum storage periods should be specific to different groups of GGRs.

It is important that a clear framework and standards are set from the start so not to punish the first movers, including how GGR projects and allowances will be monitored in the long run. This is important as monitoring costs need to be covered accordingly in the sale of the allowance and agreements may span across centuries.

15. How should the Authority manage potential reversal events from GGRs? Please consider the liability options outlined above, whether any options exist that have not been considered, and how the potential liability options could be used together or in sequence.

The consultation presents various liability options to address a reversal event, however, there has been no mention of differentiating liability actions based on the cause of the reversal event. Liability falls on the GGR operator however the causation of the reversal event may have been due to unforeseen circumstances that are not under the control of the operator e.g. natural disturbances. If a reversal event occurs that is out of the control of the operator, could the fungibility measures alone be sufficient rather than punishing the operators for something they have no control over? If there are fungibility measures already in place additional liability measures for unforeseen circumstance may become a hefty financial penalty for an operator to burden.

16. Where should the liability for any re-release of stored emissions apply if there are multiple actors in the GGR value chain?

The answer to this question is tied into the decision that needs to be made and is discussed in Question 7 of to whom the allowance is awarded to and what the agreed upon terms are in the contracts between the actors.

17. Should the liability measure differ if the GGR is also subject to a fungibility measure? For example, if the reversal event was avoidable (i.e. within the control of the GGR operator) or unavoidable (i.e. due to factors outside of control of GGR operator).

As aforementioned under Question 15, causation of leakage should be considered. If a reversal event was unavoidable, for example due to a natural disaster, then it could be extremely costly for the operator to undertake the suggested liability measures. Considering the longevity of the allowance, climate resilience needs to be incorporated and to an extent fungibility does do this.

18. Should the Authority use a buffer pool or equivalence ratio?

The Woodland Carbon Code works with a buffer pool. In the consultation it is indicated the Authority wants to use the WCC as a base to work from when including new woodland, so why not use a buffer pool? If the Authority opts to use an equivalence ratio, rather than a buffer pool as a fungibility measure, then the allowance falls under regulations that differ from the WCC. Will a GGR operator still be able to become WCC accredited?

Consistency across markets would be beneficial to provide flexibility and options to producers of carbon credits.

² [The IC-VCM's Core Carbon Principles \(sylvera.com\)](https://www.sylvera.com/)

³ [A Path Forward to High-Integrity Voluntary Carbon Market Offsets | TD Securities](#)

19. How could the Authority set the contribution rate for a buffer pool? Should this be a flat rate contribution across all applicable projects, or should this vary per project?

A flat rate insinuates that all projects have the same risk of reversal, degree of permanence, etc. However, this seems incredibly unlikely. For consistency a flat rate should be given to projects using the same GGR mechanism, but a distinction should be made between GGR mechanisms.

20. Which factors should be considered when determining the appropriate contribution rate for a buffer pool?

Several factors should be considered when determining the appropriate contribution rate, including:

- Risk reversal likelihood, natural and anthropogenic. Natural risks include the higher-level climate change risks but should also consider the conditions of the project site.
- Project longevity. With uncertainty increasing over time, project duration is an important factor to consider.
- Management practices, including the reliability of the practices and the robustness of the management plan.
- If the project involves woodland or hedgerows, the species selected for planting and the level of species diversity of the project should be considered as a higher level of diversity is known to come with a higher level of resilience.

21. How should the Authority decide which GGRs would be required to contribute to a buffer pool and at what level any threshold should be set for contributions?

AHDB has no comment on this

22. Should buffer pool contribution rates remain fixed over time or could they vary? If they vary how should this be assessed? For example, the Authority could require projects to contribute depending on an assessment of risk at each verification period, and this could change over time.

Buffer pool contribution rates should be regularly reviewed and open to amendment. Currently a lot of precaution is taken around nature based GGRs. With time, modelling and increased experience of nature based GGR deployment will allow for improved understanding on how nature based GGRs operate, enabling refinement of buffer pool contribution rates.

23. How could the Authority design equivalence ratios?

AHDB has no comment on this

24. Which inputs should be used in determining the appropriate equivalence ratios?

AHDB has no comment on this

25. Should these equivalence ratios be fixed over time or regularly reviewed and amended?

The equivalence ratios should be regularly reviewed and open to amendment. Currently a lot of precaution is taken around nature based GGRs. With time, modelling and increased experience of nature based GGR deployment will allow for improved understanding on how nature based GGRs operate, enabling refinement.

26. Should new ex-post woodland units generated in line with UK Woodland Carbon Code standards be considered for inclusion in the UK ETS? Please base your response on the evidence outlined around permanence, costs and wider land management impacts, and on the policy options outlined in the rest of this consultation.

Yes, the UK Woodland Carbon Code is a well-respected and internationally recognised certification system with independent verification.

If carbon credits certified by the WCC have the option to be sold on the UK ETS market then this offers landowners/woodland carbon code stakeholders/carbon credit operators a degree of flexibility and time

to decide with which market it would like to engage with rather than this decision being locked in from the infancy of the GGR project.

27.If the Authority does include new ex-post woodland units generated under the UK Woodland Carbon Code in the UK ETS, should any changes be made to the Woodland Carbon Code? For example, this could include changing the 20% flat-rate buffer contribution, or changes to the MRV and measures to mitigate wider land management impacts. Details of the woodland carbon code can be found here: <https://woodlandcarboncode.org.uk/standard-and-guidance>

AHDB has no comment on this

28.If the Authority does include new ex-post woodland units generated under the UK Woodland Carbon Code in the UK ETS, should any measures be taken to mitigate potential social and cultural impacts? Please provide details of the impacts, including consideration of impacts on different land ownership models, and potential measures.

AHDB has no comment on this

29.Do you agree with the Authority's assessment of peatland restoration?

Peatland restoration may currently represent reduction in emissions and not net removal, although, as the consultation document points out, this could be due to unsuitable land management practices. Considering the nature of GGR, one is essentially altering the land management practices taking place in the operating area of the GGR. Therefore, further thought is required with how the UK ETS considers peatland in the long run, especially as research has found peatland to have a greater carbon storage potential than woodland⁴.

30.Do you agree with the Authority's assessment that, by maintaining the gross cap on emissions, additional controls could be used to target wider impacts but not mitigation deterrence?

In principle yes.

31.To what extent will GGR operators seek to sell into voluntary markets and will this provide a control on GGR supply entering the UK ETS?

The answer to this question is very much dependent on what allowance the Authority will be awarding GGR operators. Will operators receive a UKA, a generic GGR allowance, or technology specific GGR allowance? Depending on what the Authority does the quality of the allowance and routes to market will differ.

If the ETS creates a more robust GGR allowance with more stringent MRV compared to voluntary carbon credits, then sellers will want a higher price for the allowance. There will be some voluntary carbon market buyers that are willing to pay a higher price because of the integrity of the scheme. However, GGR operators targeting the voluntary market would be gambling on this demand. Voluntary carbon market buyers may want to buy a cheaper credit if they do not see a material benefit in paying for ETS accredited allowance. The potential for control will therefore be limited in this scenario.

If a GGR allowance is of similar quality (and MRV) compared to a voluntary carbon credit, then it will likely have a similar price as a voluntary carbon credit. The inclusion of GGR into the UK ETS, will provide an incentive to move capital into the development of GGRs, kickstarting the creation of GGR allowances. With these entering the voluntary carbon market there will be more options for purchase available which could result in a decline in price. However, nearing the net zero target there is more pressure for carbon emission offset. Supply and demand may balance out similar to before.

⁴ [Peat deposits store more carbon than trees in forested peatlands of the boreal biome | Scientific Reports \(nature.com\)](https://www.nature.com/articles/s41598-021-01111-1)

32. Should the Authority consider the use of demand controls to target any impacts other than mitigation deterrence?

No

33. Do you agree with the Authority's minded to position to adopt supply controls to target other objectives, such as phasing GGR integration or addressing market impacts? Please consider how supply controls can be used in a way that is compatible with providing a strong demand signal for GGRs.

A focus on rigorous evaluation and quality of voluntary credits will ensure market demand.

34. What would be the optimal timing for GGRs to be integrated into the UK ETS, taking into account the considerations set out above? Please explain

This is GGR dependant. Certain engineered GGRs are further developed than others. There is still a lot of uncertainty involved with many technologies/removal methods.

Further information

Any queries relating to this submission should, in the first instance, be directed to Andy Hutson, AHDB Senior Media Relations and External Affairs Manager, Agriculture and Horticulture Development Board, Middlesbrough Business Park, Siskin Pkwy East, Coventry, Warwickshire CV3 4PR. T: 024 7647 8822 E: andy.hutson@ahdb.org.uk