Cross-Party Group on Rural Policy

5th December, 2023 18:00-19:30 (Hybrid)

Carbon credits, carbon trading, and natural capital markets

Minutes

Present MSPs

Emma Harper MSP
Finlay Carson MSP
Edward Mountain MSP
Jim Fairlie MSP

Speakers

Mark Reed	SRUC
Ben Law	SAC Consulting
Josh Doble	Community Land Scotland
Annette Burden	UKCEH

Non-MSP Attendees

McWilliams	Michelle	University of Aberdeen
Jaya	Maria	Personal
Beaton	Christine	SAC Consulting
Duffy	Paula	University of Aberdeen
Doble	Josh	Community Land Scotland
Anstruther	Toby	South Kensington Estates
Bradley	Sara	Personal
Hill	Nicola	Dumfries and Galloway Council
Scott	Douglas	Personal
Scott	Douglas	Personal
Heald	Andrew	Andrew Heald Consultant
McCall	Ian	Paths for All
Ewing	Katy	Southern Uplands Partnership
Sellars	Anna	SAC Consulting
Everett	Rosie	SRUC
Campbell	Jennifer	DMHALL
Halhead	Vanessa	Dùthchas project
Rogerson	Nick	Personal
Rice Jones	Sharon	Perth and Kinross Council
Nasseri	David	SRUC
Montgomerie	Penny	Young Farmers
Flynn	Michelle	SRUC

Green	Stan	Grow Forth
Hamilton	Alistair	SRUC
Shackley	Simon	University of Edinburgh
Hudson	Abigail	Personal
Lin	Yong	University of Edinburgh
Dewi	Maura Sahara	University of Edinburgh
Conneely	David	SRUC
Bell	Julian	Agrecalc
Jaya	Maria	Personal
Sedgwick	Emma	Rural Communications
Daniels-Creasey	Alys	University of Edinburgh
Polley	Katie	University of Edinburgh
Metzger	Marc	University of Edinburgh
Gass	David	Rural Matters
Pritchard	Elaine	Personal
Irwandi	Nurhasanah Dewi	University of Edinburgh
Kelly	Stephen	Personal
Danson	Mike	Heriot Watt
Lacey	Andrew Jonathan	SAC Consulting
McLeman	Mhari	Shetland Amenity
white	sue	Shetland Amenity
Elinchev	Olivia	Personal
Keel	Joanna	Personal
Chu	Abigail	University of Edinburgh
Eory	Vera	SRUC
McKay Fletcher	Daniel	SRUC
Tennant	Rachel	Personal
Buckingham	Sarah	SAC Consulting
Paterson	Morag	Personal
Jenner	Lucy	Savills
Frissell	Beatrix	University of Edinburgh
Nelson	Bryony	SRUC
Vester	Sterre	SAC Consulting
Mathieson	Cameron	Thorntons
Cameron	David	Personal
Mallows	Catriona	Scottish Rural Action
Burden	Annette	Centre for Ecology and Hydrology
Morrison	Theona	Personal
Keegan	Jill	Scottish Community Alliance
Villani	Fabio	TSI Moray
Law	Ben	SAC Consulting
Robbie	Jill	University of Glasgow
Reinfranck	Leah	Personal
Naidu	Tushaani	SAC Consulting
Stevens	Brady	Consulting
Rothenberg	Lucy	Personal
Halhead	Vanessa	Personal

Glendinning	James	Personal
Naab	Francis	SRUC
Henderson-Howat	David	Personal
Barclay	Kate	RewildingBritain
Webb	Stephanie	Royal Society of Edinburgh
Redemann	Gwynneth	Royal Society of Edinburgh
Carter	Stefanie	Centre for Ecology and Hydrology
Brierton	Jackie	Personal
Warnock	Samuel	Personal
Hunter	Janet	Growbiz
Pate	Lorna	SRUC
Jalali	Ayssa	University of Edinburgh
Jones	Dan	Personal
Kumar	Neema	Personal
Eory	Vera	SRUC
Halhead	Vanessa	Personal
Dams	Kim	Personal
Dams	Kim	Personal
Martens	Andrea	Personal
Anderson	Sydney	Personal
Anderson	Sydney	Personal
Anstruther	Toby	South Kensington Estates
Fairbairn	Christine	Scottish Rural Action

Apologies

MSP Apologies

Ariane Burgess MSP

Non-MSP Apologies

Thomas Mulvey	MS Society Scotland
Nina Clancy	RSABI
Wayne Grills	British Association of Landscape Industries (BALI)
Ian Muirhead	AIC
David Henderson-Howat	Care Farming Scotland
Karen Dobbie Scottish	Environment Protection Agency
Steven Thomson	SRUC
Becky Crowther	Equality Network

Agenda item 1

Welcome, introduction, and apologies

Emma Harper MSP welcomed everyone to the meeting.

She noted MSPs in attendance and apologies received.

The meeting was handed over to Alexa Green from the Rural Policy Centre (RPC) to facilitate to the renomination of Emma Harper MSP and Edward Mountain MSP as co-conveners of the session. This was seconded by Lucy Rothenberg from the audience.

Emma Harper MSP went through the general housekeeping of the session. RPC was confirmed to remain the Secretariat, seconded by Finlay Carson MSP.

It was noted that all participants had been emailed the agenda and the list of attendees and that received apologies would be listed in the meeting minutes. It was mentioned that speakers' presentations where used would be uploaded to the CPG webpage within the RPC website. It was confirmed that the meeting would be recorded and uploaded to the website where possible. Additionally, the speakers' presentations and notes will be shared along with the minutes.

Group members were encouraged to send the RPC an email if amendments were required in the minutes. The minutes will be formally approved at the next meeting. It was noted that the Secretariat will include any action points, links etc. in the meeting minutes.

Agenda item 2

Approval of minutes and recap of action items

Emma Harper MSP motioned to approve minutes of the previous meeting. Minutes were approved by Brady Stevens and seconded by Edward Mountain MSP.

Emma Harper MSP noted that the Secretariat uploaded the recordings of the presentations from the March meeting to the Group's web pages along with the meeting minutes so those are available to access if anyone would like to watch again or to circulate to others who you think would be interested in seeing them.

It was reiterated that the actions from last meeting were that the Secretariat intended to produce a podcast from the audio recorded from the meeting, but a recording of the presentations was produced instead as they felt this contained more useful information and was more concise. It was confirmed that these are available on the CPG website. Post Meeting note: A recording is not available for this session,

Agenda item 3

Presentations and discussion

- Introduction by **Emma Harper MSP**
  - Natural capital markets are important to consider in a rural context as Scotland aims to meet emissions reductions targets. As we move to a just transition, monetising nature has great promise and great implications.
- **Mark Reed** - Thriving Natural Capital Centre (SRUC) about the nuances and complexities of natural capital markets, as well as recent updates
  - <u>Two key messages</u> we need to address in carbon markets: (1) greenwashing – companies continue to offset avoidable emissions, questioning the integrity of their claims and, (2) addressing issues of market integrity – claims are made that can't be verified, double counting, permanence, negative consequences on non-targeted ecosystem services. There are also risks that monetising carbon comes at the expense of biodiversity, or local communities.
  - However, Mark iterated that carbon markets are not all bad, and we can fix what is not working. We need continued public investment levels, alongside tapping into a huge amount of investment potentially available from the private sector.
  - Carbon offsetting can occur either in the compliance market or voluntary market (VCM). Two official VCM in the UK are WCC, with potential for integrating agroforestry and hedgerow carbon, and Peatland Carbon Code (PCC). Other methods of enhancing carbon are soil carbon through regenerative agriculture, blue carbon, and carbon capture.
  - He mentioned that although the Woodland Carbon Code (WCC) is scaling up rapidly, with an expected billion pound per year annual market to exist by 2030 in England, we are still a long way off DEFRA's target. This is a much more significant opportunity in Scotland, where no targets have been set but we have real problems with carbon offsetting.
  - Mark warned about the movement from offsetting to insetting – while it is good to reduce emissions at the source first, it doesn't mean we should expect agriculture to decarbonise for free. One of the biggest concerns Mark hears from the agricultural community is that they feel forced to meet the net zero targets of their suppliers just to keep their contracts, without getting anything in return. Nonetheless, if done responsibly insets can bring benefits like diversified income streams and upscaled climate efforts.
  - Mark is trying to engage as many groups – who either stand to gain or lose from engaging in natural capital markets – together in the conversation to make sure they work for as many people as possible.
  - In addition to carbon markets there are also emerging biodiversity market, water quality markets, or companies investing in ecosystem services (eg. Water companies investing in natural flood management). If there is a market for these ecosystem services and natural capital, how can we responsibly scale them in way that will do more good than harm? How do we ensure this? One way is through BSI's nature investments program – the initiative judges scheme's integrity and grants verification. Another is through following a mitigation hierarchy, where it can be proven that those who are investing in offsets have done everything possible to reduce emissions in the first instance.
  - Mark discussed the importance of considering social issues related to carbon markets. Tenant farmers have the potential to lose out. Carbon markets need to

produce net benefits for communities. For this, market regulation and intervention are needed.

- **Ben Law** - senior forestry consultant at SAC Consulting discussing the implications of natural capital markets from a practical perspective with examples from his clients.
    - WCC has 76,000 ha of land associated with it, of those only 25,000 have been validated – indicates there is more still to come. Numbers from March 2023 show the UK is just shy of 2000 WCC projects. PCC has got almost half of the designated area the WCC has, at present there are 31,000 ha under peatland restoration comprised of 228 projects – so there is a vast discrepancy in project numbers between the established schemes. All these projects are under development and bringing tangible benefits.
    - Prices for carbon credits took off in 2017/18 when the price went from £1/ton to £3-9/ton. Now we are seeing £15, £20, £25/ton. There is a lot of variation in price between different codes, places, project, buyers. The price of carbon per ton in the UK is far above the global market price – speaks to the level of trust and interest in these credits.
    - When incentivised and stewarded properly, natural capital markets have huge potential. The main aspect of these markets is that it facilitates access to private funding streams to deliver positive, tangible outcomes. This type of financing is bridging the gap against the stagnating grant prices in the UK.
    - Example of a client – woodland creation on the West Coast of Scotland, 90 hectors of entirely native broadleaf, predominantly Atlantic Ocean forest but also upland birch habitats. Will provide habitat for a wide array of bird and other species. Project has applied for grant support but with rising costs the grant funding is not sufficient, approximately a shortfall of £200,000 against cost of delivery. For this project it has been vital to secure natural capital finance.
    - Ben also sees problems with natural capital finance: extremely hard to put a price on nature, it can be subjective. Also, sales contracts can vary from provider to provider, which are inevitably weighted in favour of the buyer with more risk placed on the seller. Contracts are long term commitments and can pass between the hands of various landowners, the terms of which may vary as well. It should be on the seller of the carbon to realise the delivery of carbon and to resupply the units. There are also very real threats of changing climate and weather on the condition of peatlands and woodlands, plus emergence of more persistent diseases. Changes in regulation can impact the value of the scheme. Unclear what the impacts of a carbon tax through HMRC will be – but commercial forestry will be exempt from income taxes.
    - There are rising costs in the rural sector, particularly concerning forest creation. For example, the rising costs of fencing contractors, operational costs of fuel, shortage of industry-wide schooling. Although there is a lot of investment in the market, it can be a challenge to find skilled delivery partners to meet the targets.
    - Natural capital is a way to facilitate landscape scale change but if we don't regulate it properly, we risk getting it wrong.
    - Alongside planting trees for offsets, we also need timber for the construction sector and decarbonising the housing sector. Because of historical planting regulations it has resulted in the UK having to import a lot of timber from overseas – the third largest net importer of forest products in the world.

  - Most clients are asking for an agreed impartial metric for more uniform valuation of natural capital across the UK. There is a desire for an integrated policy framework across every level of farming, forestry, and other land use management, as well as a drive for more education about the financial incentives that match inflationary cost, technology, policy for industry capacity and the improvement of skills, and MRV mechanisms to build transparency and trust in the sector.
- **Josh Doble** – Policy Manager for Community Land Scotland (CLS). Discussing implications of carbon markets for rural communities and the Scottish Government's commitment to land reform and community wealth building.
  - Josh explained the role of CLS: established as a membership organization for community landowners around Scotland. They have about 120 members, ranging from large crofting estates in the NW down to urban landowners in Glasgow/Clyde Valley.
  - Carbon markets have a huge impact on the Scottish land market, it's driving a investor interest and debates about what Scotland's land is for.
  - He discussed the ethical and practical concerns of carbon markets: there is a lack of credibility surrounding VCMs. Carbon markets are a market-based solution for a market-based problem. If we want to incentivize investors in this way, we need to understand how these investments might drive societal inequalities deeper than they already are. We don't have any ways of redistributing wealth which is being generated. Investment in land is excluding communities for owning the land or having a say over what happens on their land. It is a highly speculative futures market, where investment returns are based on an assumption of an ever-increasing carbon unit price, as well as increase in land prices – an inflationary hedge. There is a huge amount of money present in the asset management world. If investors buy land, they don't have to do any of the carbon market projects. Big oil/gas companies have been investing in Scottish forestry, but it allows them to continue with business as usual. What we need to see is pace and scale in the decarbonisation of the entire economy - changing the way we produce things, changing the way we are consuming, changing the way we transport things. The number of trees we plant will not matter if we do not change those fundamental things.
  - 50% of the forestry grant scheme is underspent, hinting at an issue around capacity and having enough skilled arborists. So, this can't just be about investors coming in and sorting the land market purely through money.
  - The investor interest in land for carbon sequestration is pushing up prices. It is very difficult for any community, organization, or individual without a huge amount of wealth to engage in the land market in any meaningful way. Prices in some commercial forestry sites in the south have gone up by as much as 450% since 2019. In a nutshell – public money is derisking woodland creation or peatland restoration through generous subsides, and the private sector is taking the money generated back to their shareholders.
  - Ultimately, land ownership is what opens the door to be able to sell the claim of carbon sequestration, which is why it exacerbates existing inequalities. The benefits of land ownership and carbon markets are not being more widely distributed. The Scottish Land Commission published a report saying there is very little evidence that there is any kind of financial return of natural capital

markets to communities or local democracy in terms of communities feeding in to these projects. There needs to be a means of securing these benefits. If projects are viable and generate income, then we need to close the loop back to the community. This means stopping the money from being extracted and making sure Scotland benefits as a whole, not just the investors and landowners.
  - We should not equate landowners to the community, especially at large scale reforestation projects. Even if the landowner lives locally, there is no guarantee that the benefits from the project stay locally.
  - CLS want to see models developed that keep wealth locally and provide more oversight through greater integrity, tacking greenwashing, and having substantial taxation and regulation. There are models being developed that involve some kind of carbon lease or carbon commons in which credits generated in Scotland would be kept in a central place, whether regional or national, to make sure the credits are not sold or passed on until proven that due diligence has been met. Due diligence would be at the project site to make sure communities are actually benefitting, as well as establishing due diligence on the person who is purchasing the carbon credit to make sure they are only doing so for unavoidable emissions only.
  - If carbon markets are an unavoidable reality, we need to think that Scotland has a very finite potential for carbon sequestration. If we sell off all our credits now, we won't be able to bank credits for future use.
  - CLS is proposing a model in which community agency and empowerment is actually locked in, to be called a Thriving Community Partnership model: whenever there is a significant land use change, there has to be a proper, robust conversation between landowner, investor, and community to ensure there is a social license to operate in those areas. Financial and non-financial benefits will be developed with significant oversight of governance.
- **Annette Burden –** wetland biogeochemistry and blue carbon lead at the UK Centre for Ecology and Hydrology. Discussing her work on the Salt Marsh Code and sharing insights on the blue carbon market.
  - A salt marsh is a coastal habitat on the edge of land and sea. It's a changing habitat with a wide range of salinity, temperature, and waterflow, and they must now deal with man-made pressures as well as natural pressures. In the past, the intrinsic value of this habitat seems to have been overlooked.
  - Different carbon code schemes provide a pipeline between investors and project delivery.
  - The UK has to report its annual Green House Gas (GHG) emissions in order to set carbon budgets under the UK Climate Change Act and other equivalent legislation in other devolved administrations. We must set our national contributions, essentially how we're going to reduce emissions and adapt to the impacts of climate change. Both legislation and VCMs seek to determine the GHG emission removals that occur as a result of land use change.
  - Why should we develop a salt marsh code? Historically lots of salt marsh habitat has been lost because of land claim for agriculture. Three have been about 3000 ha of restoration projects so far in the UK, it has been lagging due to lack of funding. The main motivation for outside funding for the projects has been related to capacity of flood risk management. However, carbon is the most

advanced market that is out there now – but it isn't the sole reason why we should be restoring salt marshes. We should be keeping all benefits in mind when doing restoration, the code is just a means to pay for it.
    - A feasibility study was conducted to determine whether an international carbon code could be applied to salt marsh restoration in the UK, but financial modelling shoes that a UK-specific code could generate market returns but not through carbon income alone. Would need to be blended with capital and operational grants, or other approach. This will be looked at more in the second phase of the project.
    - It is difficult to bring carbon saltmarsh data together, as there is no standardised monitoring methodology. Needs to be considered in phase 2 of creating the code.
    - The three objectives in phase 2 are: science, code design, and governance. All of these are reliant on robust, science-based evidence. Currently also looking how to scale up UK Salt Marsh Code from England to Scotland.
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Agenda item 4

Discussion

Key issues raised in the discussion included:

- **There was a comment/question about where food production sits within the discussion of carbon markets.** The speaker pointed out that when land becomes designated for carbon credits, it becomes ring-fenced. This is also relevant in relation to there being more attention placed on food security considering the war in Ukraine. Land also hosts freshwater, which is set to become increasingly commodified. Also pointed out that rural communities are responsible for feeding us and they are the primary custodians of the Scottish land.
    - Josh validified the concern about food production, particularly in reference to crofting. He believes we need to see more people farming the land in a holistic way of reaching net zero and having a deeper connection to the land. Connections to the land will reach deeper and be more important than any kind of carbon scheme. We have also seen tensions in the south in terms of hill farming being sacrificed to Sika Spruce plantations for carbon sequestration, but profits are mostly being realised for commercial forestry. This points to the death of food production – this does not dive into the debate on whether we *should* be using those hills for sheep farming in that particular way – but rather that we are turning hill farms into monocultures of sika plantations in the name of carbon sequestration.
    - Mark responded by touching on his experience of agricultural protests happening because of increased forestry. Nonetheless, he still thinks there is room for viable carbon projects, particularly if a portion of the profits go to community wealth building funds. And not all decisions about land use are land sparing agreements, where the designated land is either used for forestry or agriculture. Instead, there are also land sharing approaches where we can enhance carbon and continue to produce food sustainably at the same time – think of regenerative agriculture, soil carbon, hedgerows.
    - Ben mentioned that forestry often gets unfairly demonized in the press, despite the necessity in decarbonising Scotland's housing stock. He added the sector is

a huge source of employment in the UK and that we need the sector to grow to meet our own domestic demand more sustainably. There are also more integrated farm forestry schemes popping up through agroforestry, hydrocarbon, hedges improving biodiversity, etc.

- **Concern raised by Edward Mountain MSP about the longevity of carbon credits and the pressures it puts on farmers/landowners in maintaining the integrity of the purchased credits for a 40 year period. He questioned how credits could be traded efficiently without devaluing the land.**
  - Ben answered agreeing that in theory, when you sell a carbon credit you are selling off an asset value for your land, which means you are potentially devaluing your land. He raised a practical example of where farmers were looking to enter group farm forestry in the North of Scotland, where they wanted to extend farm shelter belts around a riparian river. Shelter would be used for livestock, arable land against wind, connecting habitats, and improving the value of the land. Grant schemes alone weren't sufficient for the project to succeed as the cost of fencing is high. Thus, the landowner sold some of the collective carbon credits from their scheme. By selling a percentage of the credits, they have released enough equity from the land that they can manage it in a positive way to achieve other objectives but also retaining enough units to offset their own emissions or insert into their supply chain.
  - Mark pointed out that we need to make sure farmers are getting a price for their carbon credits that is sufficiently lucrative.
- **Multiple comments by Andrew Heald, forestry consultant, about how conversations on carbon markets can easily be oversimplified.** There are multiple carbon markets as opposed to just one, and they are evolving by the day. Science Based Target Initiative (SBTI) is the changing force behind the driving offset market. Most big corporates are signed up to SBTI, with a focus on emissions reduction. SBTI only allows companies to set an offset target of 10% at most. A lot of carbon investments do not involve land purchase. Carbon should be look at as a service, not a commodity. You pay for this service on an annual basis. When talking about land use and food security in Scotland, we could also consider why we are using the best arable land to grow whiskey for export. Corporates can demonstrate an environmental impact without owning the credits.

Action Items:
Emma Harper MSP suggested that we all take time to reflect on this topic and these conversations, as well as think further about the questions that had been raised.

Agenda item 5
AOB

Emma Harper MSP noted that our first CPG meeting of 2024 will most likely be held on the 5th of March, probably going to be about land reform. This will also be a hybrid meeting.

Agenda item 6

Next meeting: March 5th or June 4, 2024 (TBD)