

Getting Started with the Woodland Carbon Guarantee

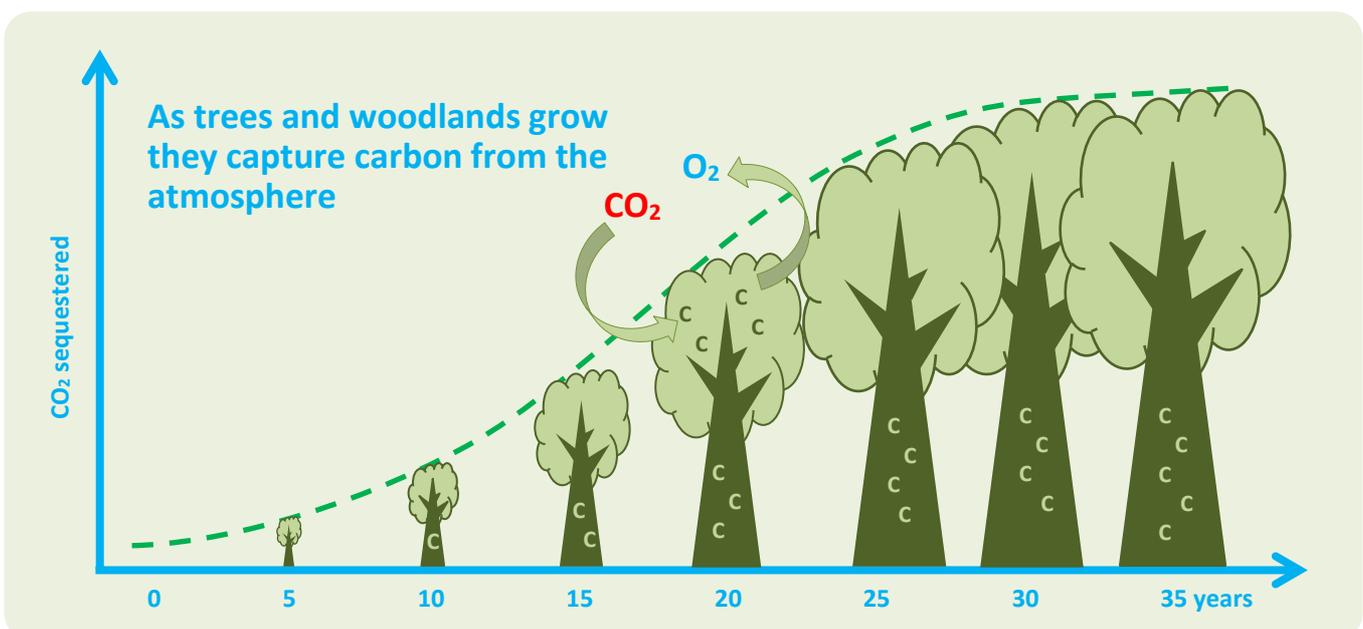
Introduction

The Woodland Carbon Guarantee (WCaG) is a £50 million incentive scheme to help accelerate woodland planting rates to permanently remove carbon dioxide from the atmosphere and help combat climate change. The WCaG provides you with the option to sell the captured carbon in the form of verified credits called Woodland Carbon Units (WCUs) to the government for a guaranteed price every 5 or 10 years up to 2055/56.

Background

As trees and woodlands grow they capture carbon dioxide (CO₂) from the atmosphere and convert it into plant material in the form of wood and leaves etc. – this is called carbon sequestration. Wood from the trees has traditionally been used and sold for firewood and timber but, with the urgent need to tackle climate change and the commitment for the UK to become a net zero emitter by 2050, there is an increasing opportunity for landowners who create new woodlands to receive an income based on the value of the carbon within the standing trees. The carbon is typically bought by UK based businesses that wish to offset the carbon that is emitted by their operations.

If you wish to sell the sequestered carbon from a woodland then it needs to be managed in accordance with the [Woodland Carbon Code](#) which is the voluntary standard for UK woodland creation projects where claims are made about the carbon dioxide they sequester. The Woodland Carbon Code provides



advice on how woodlands should be managed to ensure that removal of carbon dioxide from the atmosphere is permanent, and not reversed at a future point in time. The Woodland Carbon Guarantee uses the Woodland Carbon Code to both predict how much carbon a woodland is likely to sequester and, as the trees grow, to measure and verify that the carbon has indeed been captured.

Eligibility

Eligible land

The WCaG is open to land managers who are owner occupiers, tenants, landlords and licensors, as long as they have control of all the land and all the activities needed to meet the obligations of the WCaG for the full duration of the contract.

Ineligible land

Your WCaG application cannot include land:

- that is covered by a statutory requirement to establish or restock woodland
- that is not entirely within England
- that the applicant does not have management control for the length of the agreement and is unable to have an application countersigned by the landowner
- that is owned by public bodies

Eligible species

The auction guide available on gov.uk contains a list of eligible species that can be included within your application to the Woodland Carbon Guarantee. We may accept applications where the planting mix has up to 15% of species whose performance when grown in England is currently not proven. The use of such species will be at the discretion of the FC.

Woodland Carbon Code

The Woodland Carbon Code (WCC) is the voluntary standard for woodland carbon projects in the UK.

In order to apply for the WCaG, woodland creation projects will need to be [registered with and managed under the WCC](#). Further information on the WCC is available on the [Woodland Carbon Code website](#).

WCC projects can be grouped for the purposes of validation and verification and in certain circumstances, carbon can be accounted for at the group level, rather than individual project level. WCaG applications are welcomed either from individual WCC projects or from groups of projects.

If a WCC project group has accounted for carbon sequestration at the individual project level, then the group manager or individual landowners will need to apply to the WCaG at the individual project level. Each project will need to be submitted separately into the WCaG auction and each successful project will be covered by a separate WCaG contract. It is not necessary for all projects within the WCC group to apply for the WCaG.

If a WCC project group has accounted for carbon sequestration at the group level, then the group manager can apply to the WCaG on behalf of the whole group. In this scenario the group itself is included as a single submission to the auction and, if successful, will be covered by a single WCaG contract.

WCaG projects will need to meet the [WCC additionality requirements](#). Checks will be carried out on all projects to assess whether payments under the Woodland Carbon Guarantee are necessary in order for projects to proceed.

Other eligibility

In auction 8 (September 2024) a new category 'projects without grant support' is available for project developers who choose not to receive any grant funding from government to plant and maintain their new woodland. These projects will have access to a higher, but undisclosed, reserve price at auction compared to projects that will receive grant support.

Auction 8 will also have a category for projects that will receive or have applied to receive grant funding for tree planting, establishment and maintenance (for example England Woodland Creation Offer).

Applications for WCaG can only be submitted for projects registered with the WCC after 29 October 2018.

Projects will not be eligible for the Guarantee if planting commenced prior to the offer of a Guarantee contract after a successful bid in an auction. When you are awaiting the outcome of a WCaG auction, you should only start preparatory work where:

- a. grant funding and/or any necessary regulatory consents have been secured; and
- b. your project has been successfully registered with the WCC.

Please note: any preparatory work carried out in advance of the outcome of the Woodland Carbon Guarantee auction is entirely at your own risk and should not be done in reliance of success at the auction. In the event that you are not successful, you will still be bound by any obligations attached to the project, including the terms of any grant agreement/s.

Control of land or woodland

Applicants must have control of all the land and activities needed to meet the requirements of the WCaG Scheme for the full duration of the contract period. If an applicant does not have full control of the land and all such activities, then they must obtain the written consent of all other parties who have management control of the land for the entire period of the agreement.

In circumstances where the land ownership or control is not straightforward, applicants are advised to seek advice from the Forestry Commission before proceeding with an application.

Tenants

Tenants applying for a contract must have:

- control of all the land covered by the WCaG for the duration of any commitments (which may extend beyond the contract period). If that is not possible, they must obtain the countersignature of their landlord as part of the application. If a countersigned application is not possible on a part of the tenant's land, that particular area of land must be omitted from the application
- control of all the activities needed to meet the requirements of the WCaG for the full duration of the contract period

Tenants must have the agreement of their landlord or the landowner before they apply. The applicant must ensure that entering a contract will not breach the conditions of their tenancy.

If an applicant is a tenant under the Agricultural Holdings Act 1986, Agricultural Tenancies Act 1995 (a Farm Business Tenancy) or equivalent, it is their responsibility to check that in entering a WCaG contract they do not breach the terms of their tenancy.

If a landlord undertakes to take over a contract from a tenant once the tenancy has ended, the landlord must be eligible to do so. For example, they must not be an ineligible public body.

Landowners

Provided landowners can, if necessary, demonstrate that they have sufficient management control over the land, they can apply for the WCaG on their land.

Where there is a tenant on the land in question that land must either come back under the direct control of the landowner or they must show that the tenant has given written agreement to the application. Under these circumstances it will be the responsibility of the landowner to make sure that their tenant does not breach the terms of the contract.

Partnerships

Business partnerships can apply for the WCaG. All partners in the farm business, or their agents, must sign the application form. One person can be authorised to act as their representative provided, they have sufficient written authority from the other partners.

Licensors

If a licensor applies for a WCaG contract, it is the applicant's responsibility to ensure that the licensee does not breach the terms of the WCaG contract. Applicants must ensure that

the licensee is aware of the requirements of the contract, as relevant to the license, and include these in the license agreement.

Public sector bodies

Public sector bodies are not eligible to apply.

Tenants of land owned by public bodies

If the land is owned by a public body, any tenant wishing to apply for WCaG will need to check that the land is eligible for the WCaG.

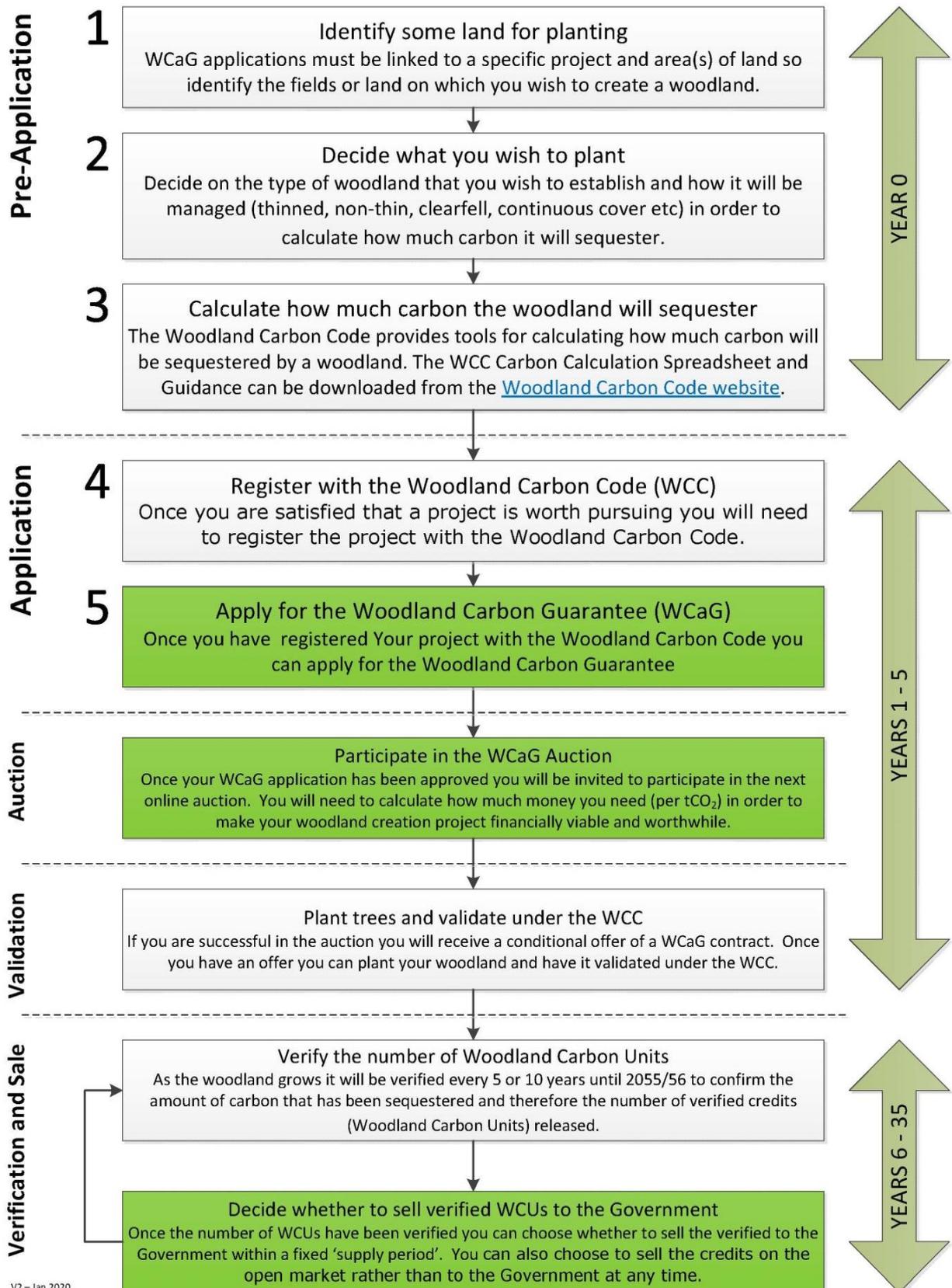
Getting Started

WCaG is restricted to new woodlands and the best time to start thinking about incorporating carbon income into a project is during the early planning stage. The WCaG process allows for the design of the woodland to be modified after an application has been approved so it isn't necessary to wait until all of the planning and EIA processes are complete before applying for WCaG. In fact, applying early for WCaG can be helpful to understand whether a project will be financially viable before committing time and effort to the detailed design processes. The key steps to apply for WCaG are:

1. Identify land for planting. WCaG applications must be linked to a specific project and area(s) of land so a first step is to identify the fields or land on which you wish to create your woodland.
2. Decide what you will plant. Applying for WCaG doesn't require a final woodland design plan but it does require you to have a reasonable idea of the type of woodland that you wish to establish and how it will be managed (thin or no-thin, clear-fell or continuous cover etc.) in order to calculate how much carbon it will sequester.
3. Calculate how much carbon the woodland will sequester. The Woodland Carbon Code provides tools for calculating how much carbon could be sequestered by your woodland. The Carbon Calculation Spreadsheet and Guidance can be downloaded from the [Woodland Carbon Code website](#).
4. Register for the Woodland Carbon Code. Once you are satisfied that a project is viable and worth pursuing you will need to register it with the Woodland Carbon Code. This can again be done through the [Woodland Carbon Code website](#). It is also worth considering if you want a project developer, who is experienced in carbon projects and who will already have an account on the Registry, to help you through this process. A developer may also be able to group your project with other landowners to save money on validation and verification costs. [See a list of project developers](#).
5. Apply for WCaG. Once you have calculated how much carbon your woodland will produce and registered it with the Woodland Carbon Code you can apply for the Woodland Carbon Guarantee. An application form can be downloaded from the [Woodland Carbon Guarantee website](#).

An overview of the process, along with the subsequent steps of WCaG, is illustrated on the opposite page.

Overview of the Process



V2 – Jan 2020

Other Considerations

Upfront or deferred income

Are you looking for an early / upfront return on your investment or are you content to take a longer-term income stream? WCaG is not a grant scheme and therefore does not provide an upfront income; rather it is designed to provide a longer-term income stream with income options available every 5 or 10 years until 2055/56.

You can choose either the 5 or 10 year income option when you submit your application, however you should bear in mind that there is a cost involved in measuring and verifying the carbon so whilst receiving an income every 5 years might seem more attractive this needs to be offset against the additional cost involved. Verifying the carbon every 5 years is typically only cost-effective for larger woodlands.

However, the Woodland Carbon Code does allow for carbon to be sold in advance of the trees growing in the form of *unverified* carbon units called Pending Issuance Units. These are a 'promise to deliver future carbon' and can provide an option for an early return by selling on the open market - but they are not covered by WCaG which only covers carbon once it has been sequestered and verified. See '[What are Carbon Units](#)' for further information.

You will also need to demonstrate that carbon finance is needed to make the project financially viable in comparison with current land use(s); the Woodland Carbon Code website provides an '[Additionality Spreadsheet](#)' to help you do this.

Tax

Currently, profits arising from the commercial occupation of woodlands are not chargeable to Income Tax & Corporation Tax and the value attributable to trees is exempt from Capital Gains Tax. The sale of voluntary carbon credits is not currently chargeable to VAT. However, you should always seek professional independent advice based on their specific circumstances before making any long-term investment decisions.

Planting and Establishment Grants

Many landowners will want to combine WCaG with a woodland creation grant (funding to plant your project) through [the England Woodland Creation Offer](#). In auction 8 (September 2024) there are two project categories.

1. projects without grant support and
2. projects with grant support.

A separate budget, reserve price and limit on maximum WCUs (removal of top 10% of WCUs by price) will be applied to each category. If you intend to receive government funding for planting, establishing, and maintaining your new woodland then you will need to apply for the 'projects with grant support' category, by selecting this option on the WCaG application form.

Woodland creation grant applications don't need to be in place to apply for WCaG¹ but should be part of your thinking when putting together the funding package for your project. If you apply for the category 'projects without grant support' and are successful at auction receiving a conditional contract (conditional on project validation under the Woodland Carbon Code) then you will not be eligible to apply to receive government grant funding such as the England Woodland Creation Offer to support planting, establishment, and woodland maintenance.

Environmental Impact Assessment

You will need to complete the Environmental Impact Assessment process for your project, but again this doesn't need to be completed until after the WCaG application is complete. It must be completed before you can be awarded a WCaG contract and will be checked during WCC validation. If you are applying for EWCO, the EIA process is undertaken as part of the grant process.

Timing of planting

WCaG is designed to support woodland creation projects that wouldn't be viable without the additional support that the scheme provides. The WCaG application and auction stages must therefore be completed before any trees are planted or other work has begun on site. It is therefore worth bearing in mind that if you have already completed a woodland creation grant application then it may be possible to plant trees either in the current or next planting season; however, if you haven't currently started the woodland creation grant application process then it may take longer before planting can begin. Owners of existing woodland who are thinking of expanding the area of their woodland (by planting new trees) can also apply, but they will only be able to apply for the new section of woodland.

Further Information about the support available for woodland creation is available on the [gov.uk website](https://www.gov.uk).

How much should I bid in the auction?

Within the UK the prices that have reported for the purchase of [Pending Issuance Units](#) have been between £5 and £15/tCO₂. As only a small number of verified Woodland Carbon Units have so far been sold, it is not yet possible to say whether these will attract a higher

The first WCaG auction was held in February 2020. The average price paid in this first auction was £24.11, in the seventh auction held in May 2023 the average price paid was £19.76. However, this should not necessarily be seen as a guide for bidding in future auctions. The auctions are competitive processes and lower bids are more likely to be successful. Auction seven has a published reserve price of £30.

¹ Woodland Carbon Guarantee applications may be made alongside applications for other existing grants provided that any agreements were signed after 29 October 2018.

price. Further information on current carbon prices is available from the [Woodland Carbon Code website](#).

WCaG is intended to assist with woodland creation projects that would not otherwise be viable without the additional guaranteed income that WCaG provides, and we would therefore normally expect bids in the WCaG auction to be higher than those current prices. In basic terms therefore your bid price in the auction should be based on the amount of support that *your project requires* to make it financially viable. This amount can vary significantly depending on three main factors.

The type of woodland that you wish to create

The creation of new woodland is a long-term decision and before thinking specifically about carbon sequestration you should consider the basic question of what type of woodland is best for you and where is an appropriate location in which to create it. Irrespective of your goals it is still important to ensure that you plant the right trees in the right place.

- Do you want broadleaved trees or conifers (or both)?
- Do you want to generate some income from the sale of other woodland products?
- What are the opportunities and constraints (e.g. biodiversity, landscape, climate change, protected habitats, historic environment, people, soils, water - see [UKFS](#) for further information) that affect your site?
- What are the wider needs of your business?

Answering these and similar questions will help you understand how much it will cost to plant and maintain your woodland and how much income (excluding carbon) it might generate. Further information on planning your woodland is available on [gov.uk](#) and don't forget that WCaG can be combined with most of the existing woodland creation grants under the 'projects with grant support' category.

The amount of income that you need the woodland to generate

Depending on the location of your proposed woodland it is likely that the land might already be generating an income and, depending on your circumstances, you may require the woodland to generate at least an equivalent or greater surplus. Having a clear understanding of how much income is currently being generated from the land could provide a good baseline against which any proposed woodland can be compared.

WCaG provides an income, every 5 or 10 years, for a maximum of 35 years. However, some woodland will continue to sequester carbon after this time and this can still be sold on the open market along with any other income streams, timber, or recreation, which the woodland might provide.

How the woodland will fit into your overall finances and estate / farm

Understanding the type of woodland that you wish to create, along with the amount of income that you need the woodland to generate, should give you a good understanding of whether your project will require additional income through WCaG to be viable.

You may then wish to consider how the income from the woodland would fit into your overall finances. Do you require the woodland to generate the maximum possible income, or just break-even, or can you accept a reduction against current income as part of a broader development plan for your estate or farm? Is the income critical to your standard of living or part of a wider portfolio?

The contractual guarantee that comes with WCaG support may also be helpful if you wish to access other sources of capital investment.

How to calculate your bid price

Feedback from WCaG applicants has suggested two broad approaches to calculating a bid price: discounted cash-flow or opportunity cost comparison.

Discounted cash-flow

This is a method of financial analysis that calculates the present value of a project based on all of the future cash flows. Most people perceive that receiving money now is preferable to receiving it at a later point in the future, so any future cash flows, both incoming and outgoing are reduced (discounted) to take account of how long into the future they occur. Discounted cash flow analysis sums all of this discounted income and expenditure to provide a valuation for a project that can be compared against valuations for the current land use or other projects. Further information using on this approach can be found online or obtained from your financial advisor and the [Woodland Carbon Code Additionality spreadsheet](#) can also be used to calculate your discounted cash-flow.

Opportunity Cost Comparison

A slightly simpler approach is to compare the overall income that you're currently getting from your land against that which you might be able to get from planting woodland. WCaG provides an income until 2055/56 so a simple approach would be to multiply the current annual income from the land by the number of years until 2055/56 and then divide this by the number WCUs that the project will generate.

$$\frac{\text{Current Annual Income from the land} \times \text{Number of years until 2055}}{\text{Total estimated WCUs until 2055}}$$

This basic calculation can be further refined to include:

- The net cost of establishing and managing the woodland after taking into account any grant income and any other income.
- The costs of validating, monitoring and verifying your project to the Woodland Carbon Code.
- Other income for example from the sale of timber that the woodland might generate and the sale of any carbon credits delivered after 2055/6.

Summary

Whichever method you use to calculate your bid price it is important to take into consideration those factors; woodland type, site requirements, income and appetite for

risk, which are important to you. **A final decision on whether to create woodland and how much financial support the project might require can only be based on your personal circumstances and we always recommend that you seek independent financial advice before making any long-term investment decision.**