

# Getting Started with the Woodland Carbon Guarantee

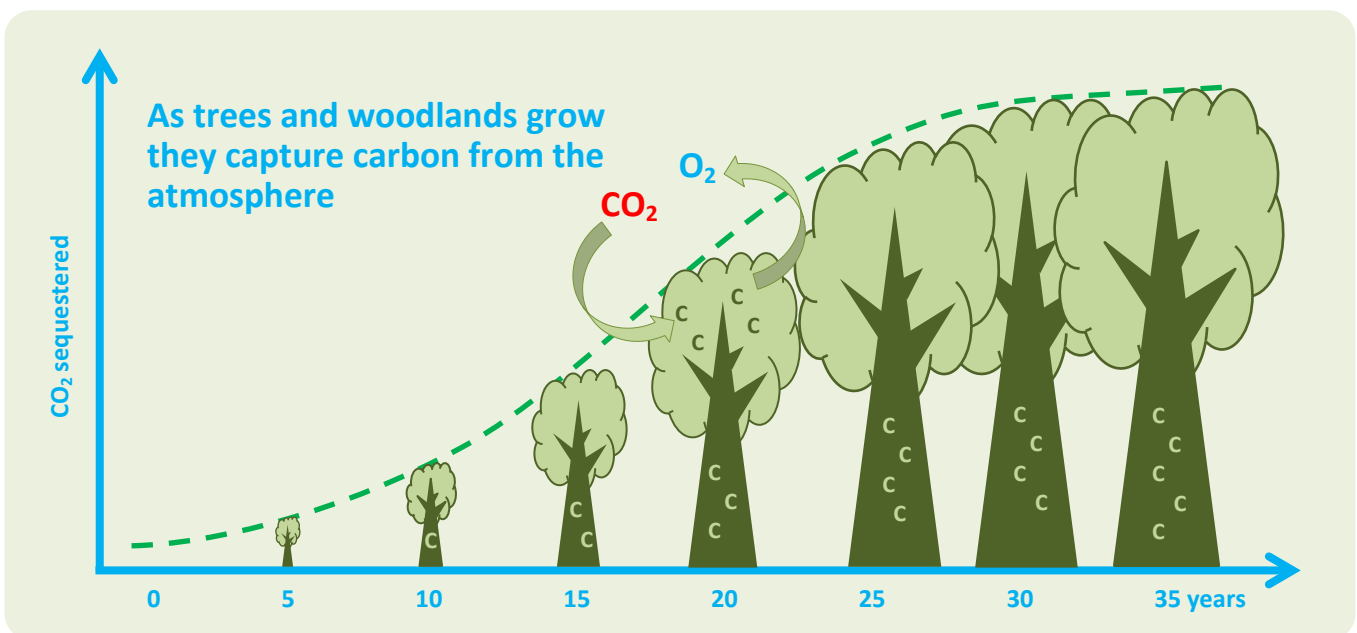
## Introduction

The Woodland Carbon Guarantee (WCaG) is a £50 million incentive scheme to help accelerate woodland planting rates in order 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. Full details of the scheme are available on the [Woodland Carbon Guarantee website](#).

## Background

As trees and woodlands grow they capture carbon dioxide (CO<sub>2</sub>) 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 be 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.

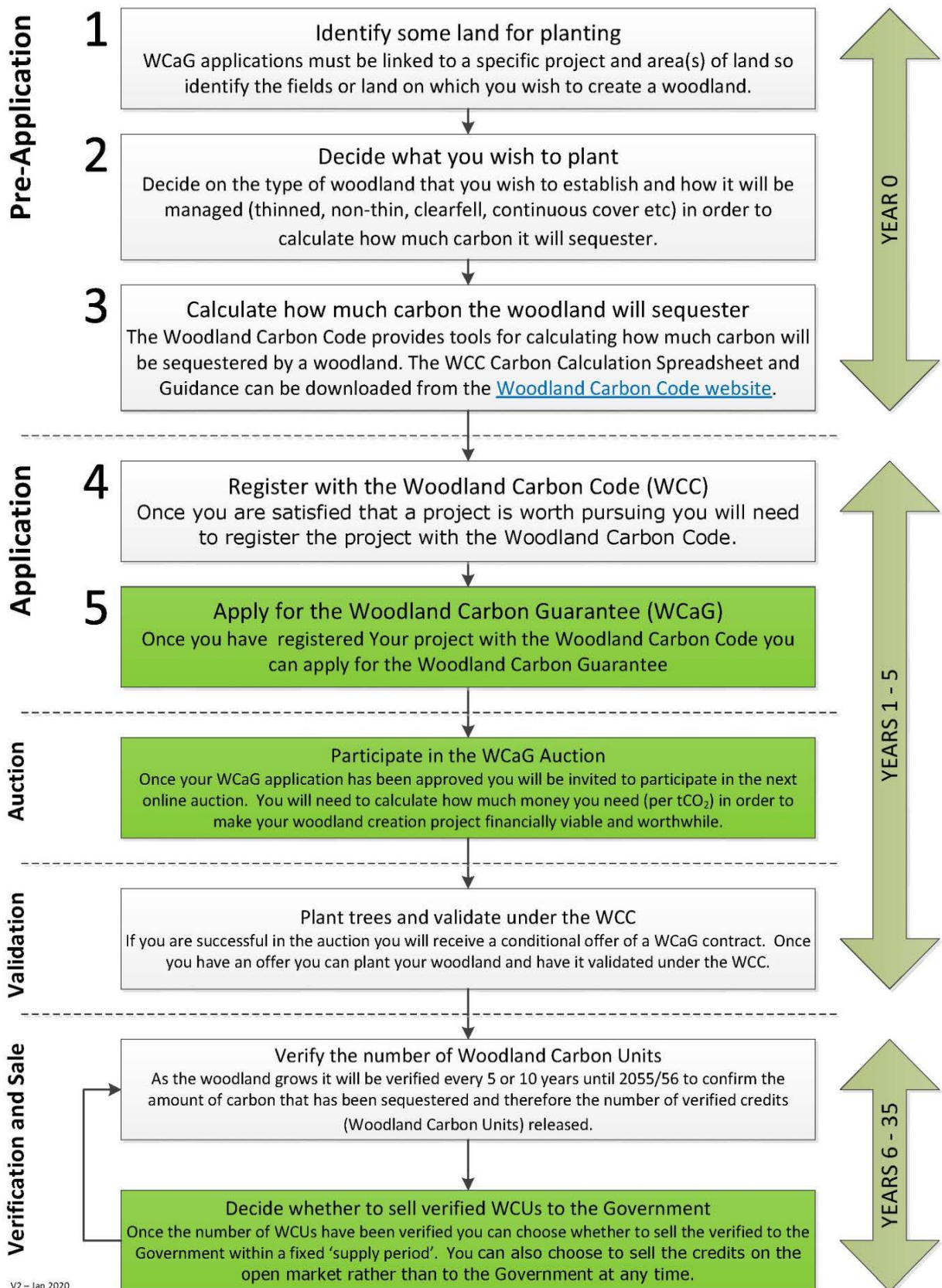
## Getting Started

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. It can therefore start to provide an income from year 5 which might help to bridge a gap between upfront grant income and a later income from the sale of any timber.

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.

### Establishment Grants

Many landowners will want to combine WCaG with a woodland creation grant (funding to plant your project) through [Countryside Stewardship \(CS\) or one of the FC's other woodland creation grants](#). Woodland creation grant applications don't need to be in place in order to apply for WCaG<sup>1</sup> but should be part of your thinking when putting together the funding package for your project.

### 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. If you are applying for the CS Woodland Creation Grant, the EIA process is undertaken as part of the grant processing 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.

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

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/tCO<sub>2</sub>. 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 price. Further information on current carbon prices is available from the [Woodland Carbon Code website](#).

The first WCaG auction was held in January and February 2020. The average price paid in this first auction was £24.11. 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.

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* in order 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](http://gov.uk) and don't forget that WCaG can be combined with most of the existing woodland creation grants.

### 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 in order 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

However you 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.**