Foresight

Imperial College
Business School

King's College LONDON

The Carbon Credit Price and National Tree Planting Impact of Woodland Carbon Code Admittance to the UK-ETS

POLICY PAPER: FACTSHEET

KEY FINDINGS

The policy paper concludes with a conservative estimate that the price signal for new WCUs immediately after the WCC admission into the UK-ETS presents a baseline price of £41 with a price range of up to £47 per WCU. The statistical model used anticipates a steady rise in WCU's prices post-integration, projecting £68.4 in 2024, £74.0 in 2027, and £78.6 in 2030 once the market stabilises.

Our scenario analysis depicts the areas of land that become economically viable for commercial afforestation per region at different WCU's prices and presents the potential of unlocking between 11% to 26% of the total afforestable land in the UK, affecting primarily England and Wales, with a less material impact on Scotland.

A significant impact is expected in England, with an estimated surge of 15% to 41% of land economically unlocked for afforestation. Similarly, in Wales, the increase is expected to be even more pronounced, ranging from 119% to 248%.

In Scotland, the unlocking impact resulting from the admission would be negligible. However, improved pricing and a more stable route to market for WCUs could provide additional economic incentives for increased afforestation rates. This presents an opportunity for Scotland to contribute more substantially to UK planting efforts and better meet its annual planting targets.

The research suggests that the inclusion of WCC into the UK-ETS could assist the U.K. government in approaching its national afforestation goals for 2050, increasing the total carbon sequestered in the U.K. by forestry in an estimated range of 12% to 30%.

The case studies of New Zealand and CORSIA reveal linkages between voluntary and compliance markets. In New Zealand, where the forestry carbon credit market has been integrated into the NZ ETS from inception, NZUs demonstrate high responsiveness to regulatory uncertainty. The market requires clear price signals, improved land modelling, and enhanced transparency in forestry reporting.

The full policy paper can be accessed **here**.

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POLICY RECOMMENDATIONS

1. To expand the UK-ETS to GGRs through forestry by including the WCC. Admitting WCUs into the UK-ETS would improve the route to market and market efficiency, give a strong price signal for investors in nature-based solutions and help to increase the demand for WCC credits. Ultimately, it would help with national afforestation and carbon sequestration targets towards net zero.

    It is recommended a dual-market option where developers and owners of WCUs can trade some or all of their units within the UK-ETS while retaining the right to 'Opt-Out' and alternatively sell some or all of them in the voluntary market.

2. To set up a sound and long-term policy in the context of the WCC admitted into the UK-ETS to build investors' confidence. This policy will include transparency in pricing mechanisms for forestry carbon credits. According to quantitative analysis, this policy could result in a new baseline price of £41 per WCU to increase afforestation levels positively by more than 10% across the U.K.

3. To evaluate the synergy between an integrated WCC & UK-ETS markets and its interconnection with the EU-ETS. This aims to bolster the demand for WCUs, enhance overall market liquidity, and standardise MRV processes.

4. To encourage research to build up a data-driven methodology of pricing, where price elasticity is defined simultaneously by supply and demand. Secondly, to explore the impact of linking the UK and EU markets on pricing and demand of forestry credits, improving its market efficiency.

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This report is published by King's College London and Imperial College Business School, but represents the independent opinion of the authors and not necessarily that of either institution.

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