

Why Are Regulated Carbon Markets Developing So Slowly?

Many farmers are keen to explore carbon credits as a potential new income stream, and it seems the private sector is keen to invest in 'carbon farming', but the common message is wait until the market is more regulated and less risky. This article explains why the processes between farmer and the carbon market are needed, and why these currently create major barriers to scale and speed of trustworthy transactions.

- Monitoring and verifying soil carbon is inherently more complex and imprecise than for peatland and woodland carbon.
- Registration and monitoring, reporting and verification (MRV) of carbon credit projects can cost 20-30% of the total project cost.
- Commonality of rules and regulations, as well as more automated MRV, and digital data sharing will be crucial to make agricultural carbon markets economically viable and accessible.

Currently there is a lot of noise around the potential for 'carbon farming' and carbon credits as a new potential income stream. At the same time, most in the industry (SAC Consulting included), are urging farmers and land managers to be cautious about if and when they sell carbon credits in an unregulated market with lack of clarity about future price or the unintended consequences to farms of selling its carbon assets.



It can be confusing – how is it that woodland and peatlands are safe spaces to trade carbon credits, and what is so different about credits linked to agriculture and soil carbon?

The answer to this partly lies in the level of science and methods available for monitoring, reporting and verifying (MRV) actual impact of actions in managing these resources, which are much more advanced and accurate for woodlands than soil carbon, with peatlands sitting somewhere in the middle (though closer to woodlands). It is widely known that soil carbon measurements

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are highly variable with large margins of error, though accuracy is improving as new science becomes available. MRV of soil carbon is currently costly, time consuming, and less reliable than established methods for woodlands and peatland.

For carbon credits to be formally registered and traded (to provide credibility of the credit), a project must go through many stages of certification, project verification, as well as follow up MRV, all of which require expert input and at a cost. The cost of these processes can be as much as 20–30% of the cost of a project, limiting the feasibility of a project, particularly those working at a small scale and/or when the cost of carbon is relatively low. Any credits which bypass the registration and MRV processes required by registries such as VERRA and the Gold Standard, may provide quick and cheap wins now but may be dubious in future when greater reporting and verification is required for trading carbon, with likely long-term loss in the value of carbon created through the project.

Currently there are huge bottlenecks in registries, with the increase in demand for carbon credits, lack of common rules and

requirements across projects, and burden of MRV slowing throughput in the system. Farmers and land managers considering options for selling carbon credits should closely evaluate the costs of rigorously verifying actions taken, versus the potential income, as the economics may not yet stack up.

These factors clearly have an impact on the ability for carbon credits to be traded on any scale or speed currently. Greater commonality of rules and regulations, as well as more automated MRV, and digital data sharing will be crucial to making agricultural carbon markets economically viable and accessible. Innovators in the financial and sustainability space are more optimistic about methods and systems being developed to support 'fungibility' of traceable, transparent, and trusted carbon credits. There are lots of lessons that can be learned from previous sustainability transactions, but this will not be an overnight task.

If you are exploring selling carbon credits or would like to keep in the loop about what carbon markets might mean for farming, please get in touch.

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