



# Farmers' Union of Wales Response to Developing the UK Emissions Trading Scheme (UK ETS)

Department for Business, Energy and Industrial Strategy

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## About the Farmers' Union of Wales

The Farmers' Union of Wales (FUW) was established in 1955 to exclusively represent the interests of farmers in Wales, and since 1978 has been formally recognised by the UK Government, and subsequently by the Welsh Government, as independently representing those interests.

The FUW's Vision is thriving, sustainable, family farms in Wales, while the Mission of the Union is To advance and protect Wales' family farms, both nationally and individually, in order to fulfil the Union's vision.

In addition to its Head Office, which has thirty full-time members of staff, the FUW Group has around 80 members of staff based in twelve regional offices around Wales providing a broad range of services for members.

The FUW is a democratic organisation, with policies being formulated following consultation with its twelve County Executive Committees and eleven Standing Committees.

## Chapter 8: Calls for evidence on greenhouse gas removals and agriculture and land use emissions

**147) Do you believe the UK ETS could be an appropriate long-term market for GGRs? (Y/N)**

**Please explain why, highlighting benefits and risks where possible.**

1. Firstly, it is difficult for farmers in Wales to make a definite decision on this proposal due to the numerous uncertainties currently facing the industry, and how this proposal could interact with or affect them.

Said uncertainties include, but are not limited to;

- a) the design and financial worth of the new Sustainable Farming Scheme set to begin in 2025, and how GGR may be rewarded within it
  - b) How Westminster's current trade liberalisation approach with large agri-exporting countries will affect domestic competitiveness
  - c) the financial value of traded carbon credits in the future (both within the ETS and the Voluntary Carbon Market (VCM)) as opposed to other land uses
  - d) Carbon reporting requirements on agriculture in the future- needing to understand the carbon position of their own business before considering selling GGR into various markets
2. FUW Members also commented on the complexity of such issues, and how the science of carbon emissions and sequestration, alongside carbon market trading nuances, was a new language for them to learn and understand, despite its ability to be very influential on future farming scenarios.
  3. Regarding benefits of the ETS as a market for GGRs, some members commented on the ETS potentially providing higher and more predictable prices for carbon traded (or indeed, fairer prices in comparison to the VCM), in addition to being a more regulated market space reserved for 'hard to abate' sectors, as opposed to the 'wild west' perception of the VCM and its association with greenwashing. It could drive investment into rural areas and onto farmland and allow farmers to access financial rewards for afforestation, peatland restoration and bio-fuel production.
  4. Incorporating GGR into the ETS is highly likely to increase demand for the most commonly traded nature based GGRs (woodland creation and bio-fuel production) thus impacting demand for land. 80% of land in Wales is farmland, therefore any land-use change will have a direct impact on agriculture.
  5. Consequently, regarding risks, most of the discussions about this proposal were focused on the potential adverse impacts for Welsh family farms, Welsh communities and Wales as a whole of wide-scale land-use change from agriculture to afforestation, and increased demand for land from investors. The risks which members identified can be summarised as follows, therefore if these proposals are taken forwards, safeguards must be put in place to avoid these risks;
    - a. The sale of carbon credits from Welsh farmland to other sectors/companies risks undermining the ability of farm businesses and Welsh agriculture as a whole to become carbon neutral
    - b. This is particularly pertinent if agriculture is included in the ETS in the future, whilst GGRs produced on farmland in the meantime are sold off to other sectors within the ETS, either by investors or farmers. Agriculture will require GGRs itself in order to reach Net Zero due to the biological emissions inherent in the production of food, such as the methane cycle or

micro-biological interactions in soils, which makes it difficult to get to zero emissions.

- c. Consequently, it is also a potential risk to food security, if carbon pricing becomes a more lucrative land use than food production, particularly for productive land which swaps to biofuel production. We cannot expect a market-led initiative to account for wider land use policies and priorities, such as food production, rural economies and biodiversity aspirations. Many members noted that food security mustn't be taken for granted. Wales is a country ideally placed to produce high-quality food from marginal land using few additional inputs - which will be important in meeting its global food security obligations and its duty not to 'off-shore' its emissions to more vulnerable global regions.
- d. Furthermore, a market led demand will naturally choose the cheapest form of GGR, which is afforestation, thus incentivising large scale land use change. Due to land-use regulation and carbon credit permanence requirements, afforestation is also a permanent land use change. It should be noted that all the land now farmed on the planet would be required to reach Net Zero for the planet by 2050 by tree-planting alone.
- e. Consequently, members raised concerns around the impact on future generations of farmers. Whilst, theoretically, the current generation of farmers could capitalise on carbon payments for GGR from afforestation for the next 50 years or so, afforestation is time-limited in its sequestration potential, despite its permanence in the landscape and replanting liabilities within contracts.

Future generations could therefore be left with less land available for agriculture, limited options for further carbon sequestration, as well as replanting liabilities on land with a limited ability to generate income, particularly if broadleaf trees are planted.

- f. Due to speculation on the future price of the carbon market rising and demand for carbon offsetting, Wales (similarly to other countries dominated by hill-ground such as New Zealand<sup>1</sup>) is seeing a concerning rise in farmland acquisition and afforestation by outside investors, as opposed to such projects being integrated into current land ownership, family farms and farmer or local community-led tree planting. The FUW has been robust in its criticism of this trend, and the implications this land acquisition and increased land prices could have on rural communities and Wales' family farms<sup>2</sup>.

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<sup>1</sup> <https://www.50shadesofgreen.co.nz/>

<sup>2</sup> [Preventing Wales' Corporate Carbon Land Grab: Balancing carbon, trees and rural communities - FUW webinar shines spotlight on issues](#)

6. FUW members were unanimous in their opinion that this proposal, if taken forward, must not reduce the incentive to decarbonise- otherwise it risks providing a licence to pollute. Members felt that lucrative sectors and companies who could afford to do so would continue polluting otherwise. The core principle of the ETS is to reduce emissions over time, therefore incorporating GGR risks derailing this principle.

**148) How could the design of the UK ETS be adapted to include GGRs while still maintaining the incentive to decarbonise for ETS participants?**

7. Some members proposed that a limited amount of more permanent engineered GGR allowances could be included in order to drive investment into DACCS without impacting negatively on land use.
8. FUW believes that offsetting (which is effectively what GGRs would be doing) must complement not replace lowering emissions. Therefore sectors must prove significant emission reduction measures before being able to utilise offsets
9. FUW believes that the Government should introduce a control mechanism in order to prevent the risks outlined in (5.)- this could include setting boundaries on land use change, or amending planning process rules to ensure any large scale developments meet objectives that benefit and are not detrimental to local economies, communities and culture, and do not significantly reduce food production or biodiversity. This could help ensure that the three pillars of sustainability- economic, environmental and social, are given equal consideration and are not eclipsed at the hands of powerful players. Land use and ownership should be monitored to ensure the proposals are not instigating inappropriate land acquisition or displacing agricultural production and rural communities

**149) To what extent could the UK ETS price signal incentivise development of the full range of GGRs, including engineered and nature-based GGRs, given the expected differences in the project costs?**

10. Please see 5d & e and 7.

**150) What impacts or opportunities could arise for the UK voluntary carbon markets, if GGRs were included in a compliance market like the UK ETS? For example, what impacts, or opportunities could there be for voluntary carbon market schemes such as the Woodland Carbon Code?**

11. Whilst much more information is needed on the details of this proposal, FUW believes it has the potential to reduce VCM activity as suppliers would want to prioritise the (likely) higher price of the Compliance market. However, it is arguably better to prioritise the use of GGR's for hard to abate sectors within the compliance market, as opposed to companies purchasing through the VCM who should be

prioritising decarbonisation first and foremost. The ETS may wish to learn from the challenges the VCM has experienced in creating quality, additional and permanent nature-based 'offsets'.

**151) What impacts or opportunities could arise for the emerging markets for wider ecosystem services (e.g. biodiversity, flood management, water quality) if GGRs were included in a compliance market like the UK ETS?**

12. This depends on how the ETS would define additionality and whether multiple benefits can be accrued from the same credit. FUW members believe this could lead to an increased focus on carbon to the detriment of other ecosystem services. For instance, incentivising fast growing tree plantations on biodiverse and naturally low tree cover habitats such as grasslands and peatlands. However high quality nature-based offsets have the potential to embed additional value. For instance, enhancing soil organic carbon doesn't remove land from food production, while enhancing biodiversity and water retention and increasing long-term carbon storage.
13. The FUW believes the Soil Carbon Code should be developed promptly, and be applicable to managing and maintaining pasture based farmland with existing high levels of soil organic carbon. Otherwise, contrary to incentivising good practice, those with the most to gain financially are from farmland which has very low organic carbon levels and poor soil health.

**152) Are there any impacts, constraints or unintended consequences that need to be managed if incorporating GGRs within an ETS?**

14. Please see point 4 & 5 in response to question 147 on the potential impacts on Welsh agriculture and Wales' family farms. Below are additional potential consequences.
15. Approximately 27% of farmed land in Wales is rented, with many in short-term agreements. Generating GGRs and trading them are generally long-term contractual agreements due to permanence requirements, thus the opportunities are limited, if any, for tenants. Corporate finance into carbon or natural capital in rural areas is likely to increase land prices and demand, making it more difficult for young local entrants and tenants to compete financially. Furthermore, an increase in demand for land-based GGR is likely to encourage landlords to take land back in hand as opposed to letting land to agricultural tenants. Tenancies are a crucial step on the farming ladder for new entrants, and essential for our future farmers.
16. Members were insistent that this scheme should be considered in a global context, particularly in relation to equivalence in trading, standards, and ensuring carbon leakage does not occur to the detriment of UK companies. Therefore maintaining equivalence with the EU ETS will be crucial, due to its position as the largest and longest established ETS, as well as our closest Geographical neighbour. The EU

ETS does not use biological based GGRs (LULUCF). Opening the UK up to a potential influx of credits through incorporating GGR's could undermine the integrity and stability of the newly formed UK ETS.

17. Welsh is spoken by 43% of workers across the agricultural sector compared with an average for all Welsh workers of 17%. Therefore moves which undermine the viability of Welsh agriculture are likely to represent a significant threat to the Welsh language, which is of National and International cultural significance. For example, large scale carbon credits could be generated and sold from commercial forestry in upland areas, subsequently increasing land prices and demand, and making it more difficult for young local entrants to compete financially. These upland areas may also be more vulnerable to changes to the rural economy and local social and cultural factors, including the Welsh language, making it even more important to ensure farmers and landlords are able to reside in their local communities. Welsh speakers make up 61% of all Celtic language speakers, despite the fact that Wales' population comprises less than 20% of the population of all Celtic countries and communities

18. FUW members believed that a Carbon tax/ Carbon Border Adjustment Mechanism for imported products would be essential in the future- to prevent undermining the work UK companies are doing to decarbonise, and to stop consumers effectively exporting greenhouse gas emissions abroad . This is particularly relevant and important for family farms' livelihoods and for food security. Recently negotiated trade deals are already watering down environmental regulation and reducing equivalence, which reduces UK agricultures confidence in investing in environmental enhancements and decarbonisation innovation

**153) Do you think there are other eligibility requirements we should consider and what are these?**

**157) Who should own the rights of a possible GGR allowance or credit in a possible future market - the buyer, or the seller?**

19. Again, this is an area which requires more detail around liabilities and length of contracts. Members asked if contracts could be amended if there was a food shortage, and where liabilities would lie if fires or disease impacted on woodland involved in a contract. Please see point 5e.

**160) Are there other market designs or proposals we should consider for longer-term GGR deployment that would be preferable to inclusion in the UK ETS?**

20. **Ring Fencing carbon to Wales-** as mentioned earlier, FUW can see the potential merits to farmers of selling into the compliance or Voluntary Carbon Market.

However, the risks outlined in (5), combined with past experience, has led to some counties having serious concerns that carbon could join a long list of Welsh natural resources which could be sold to outside companies and individuals seeking to make a profit, as has happened in the past with Welsh water and conifer dominated afforestation in the uplands.

## Reducing emissions from agriculture and land use – a call for evidence on how emissions can be suitably measured, reported and verified

### **165) For farm businesses: Are you currently using carbon audit tools? (Y/N) •**

#### **If so which one(s), and what farm practices or management have you changed as a consequence of using the tool?**

21. A number of members explained they have had carbon audits done 'on them' via their supply chain contracts- for instance suppliers of Glanbia, Arla and Tesco
22. Some Morrisons beef suppliers had been encouraged to plant woodland in order to improve their enterprise carbon position
23. Numerous members had their feed use highlighted within the audits, particularly feed containing soya, as well as Urea fertiliser use
24. Increasing productivity and gross output was another action highlighted within the audits to improve figures
25. Some members commented that they were already aware that feed and fertiliser use were their biggest challenges but felt they were unable to change much without impacting negatively on their production levels and contractual obligations
26. Those with more extensive livestock systems (often with the highest levels of sequestration and minimal inputs) seemed to fare worse in carbon audits much to their incredulation, and were therefore encouraged to increase production to improve figures, which members felt was at odds with other Welsh Government priorities around resource use and biodiversity
27. Regarding which tools were used, Tesco suppliers had done their carbon audits through Promar, whilst those who accessed Farming Connect's group scheme with a consultant had generally used Agrecalc, although it was reported that Farming Connect were also using six different calculators
28. Those who had done an audit themselves had generally used Farm Carbon Toolkit
29. There were a mixture of motivations for completing the audits- some due to contractual obligations, some thought it would improve their supply chain relationships or give them a potential competitive advantage, whilst others stated

they wished to be able to use figures to demonstrate a positive story for their farm. Others simply wished to understand their own baseline and had proactively sought to do their own audit

**• If no, what has prevented you from using these tools?**

30. Generally members had not completed an audit, but many stated they would be interested in doing so, although it felt like yet 'another thing to do' particularly in speculation of the additional paperwork and regulation which could accompany the new Sustainable Farming Scheme and the Agri Pollution Regulations
31. The lack of a standardised tool was repeatedly raised by members as a barrier to uptake
32. However there was also a strong feeling of distrust around the tools, 'you could put in what you like' - namely because of the lack of standardisation and variation in results. Some members were not convinced or reassured as to the validity of the data, and therefore the benefit of completing the, presumed lengthy, process
33. Some members stated that due to the negative rhetoric used by the Government and supermarkets around meat and dairy products, they were concerned about what they would do with these figures once supplied. One county described it as 'we would be loading the gun for the Welsh Government' to fire the 'bullets' in the way of more restrictive control over agriculture and a raising of the regulatory baseline. This was discussed in the context of the proposed Welsh Government Agri Pollution regulations, as well as how farmers who complied with Red Tractor Assurance were once given a bonus, whereas now it is often a compulsory requirement within contracts
34. Again, as outlined in point 1, due to the uncertainty around the design of the new Sustainable Farming Scheme in Wales, members were unsure whether they would have to repeat the audit again in order to qualify for payments- or, that they wouldn't be incentivised to do so if they had already completed an audit, and that payments would be made for improvements made as opposed to good practice
35. Many were unsure which tool to use, or had presumed the tools required a fee or a consultant to come and complete the audit
36. Again, the issue around competitive advantage and different support for decarbonisation globally was raised (please see points 1b, 16 & 18) i.e. why should farmers in the UK have to go through the process if other countries and industries don't have to
37. Some members commented that it felt more like a paper-based tick box exercise as opposed to being of practical worth to the farming business



**166) What are the barriers to implementing robust Monitoring, Reporting and Verification of greenhouse gas emissions, and how can we improve record-keeping?**

38. Please see reasons 28-35
39. FUW have consistently argued the case for evolving and developing Wales' state of the art RPW Online system. This system efficiently and accurately (and crucially from the ground up), collects annual data relating to 170 types of land use on hundreds of thousands of field parcels and areas throughout Wales, at a resolution of 0.01 hectares, while also collecting many other types of data relevant to Wales' wellbeing, business practices, carbon sequestration and other environmental goods as part of the SAF claim for farmers' BPS payment
40. Such data covers around 90% of Wales' land area and the overwhelming majority of Welsh farm businesses, and Welsh farmers through this annual process have contributed greatly to spatial understanding of Wales' land use, yet minimal use of such data has been made by the Welsh Government
41. Much of this annually collected data which already exists could feed into assessing a farm's carbon balance. RPW online capability could then be extended to ask for additional data relevant to a farms carbon footprint
42. Crucially, this data provision must be incentivised annually- this will secure widespread uptake across the farming industry; recognising farmers' time and effort involved, as well as encouraging an iterative process of measurement, action and review, so that progress towards Net Zero can be determined at a farm, sectoral and Wales level
43. This large scale data collection could subsequently aid in the Welsh Government's objectives of promoting uptake of low carbon farming practices quickly and at scale. An incentivised approach also provides the critical mass required to determine the net carbon position of Welsh farming, as well as the quantitative data required to assess the effectiveness of the full range of policy interventions through the evaluation process
44. This provides a unique opportunity for better and more consistent data capture, as farmers are familiar with the RPW online portal, which has been co-designed over the last 30 years with the industry. Utilising pre-existing databases and pre-existing data sources to help form a farms carbon balance (for example, enabling the integration of BCMS, EID Cymru and farm assurance data) helps reduce admin time for farmers and improves data accuracy
45. However concerns from members must be addressed and integrated into the reporting tools to ensure effective and accurate reporting, as well as incentives
46. Whilst this may need to be a far simplified version in comparison to some tools, and requires the use of proxies, it acts as a starting point to help farmers along the sustainability journey, and is of far more use to decarbonising the sector than no data

at all. Furthermore, it represents a farmer-led system, thus increasing ownership and farmer learning. Many members commented that they thought carbon auditing as promoted currently would benefit consultants far more than the farmers and farming businesses themselves

47. Having an evidence based and data led system also enables targeted payments and interventions based on this data.
48. Many members were perplexed that some calculators didn't take into consideration on-farm sequestration, the management of existing carbon stores, and renewable energy production- despite them being an inherent part of the farm business and daily management. They believed that in order to increase carbon sequestration on farms, they should not be considered as separate, otherwise it undermines farmers' efforts if figures appear in a different inventory.  
Increasing Soil Organic Carbon and woodland cover on farms is vital for tackling climate change, therefore not accounting for sequestration on farms does nothing to incentivise farmers to undertake these actions.
49. Some members also expressed frustration at inconsistent approaches by consultants used by Farming Connect to carbon sequestration. For example, how common land is considered in the context of carbon e.g. peatland shared between graziers, or omitted entirely from the results

**167) Remote sensing technologies and earth observation could be used to complement carbon reporting tools. Do you have any concerns about utilising this technology and what could reassure you?**

50. Farmers are already accustomed to the use of this technology in SAF completion/IACS data, as well as agri-environment schemes, and they can play an important role in streamlining data collection and reducing costly on-farm inspections. Please see points 36 onwards on how this data could be used
51. However, FUW staff regularly deal with issues regarding the accuracy of the data, or how regularly the satellite imagery has been taken. A certain amount of ground truthing is therefore required to avoid unfair penalties

**168) How can carbon audit & reporting tools be used in conjunction with other business planning mechanisms?**

52. Please see points 36-42

**169) How can MRV be best utilised for the purpose of:**

- Decarbonising agriculture

53. As mentioned, MRV needs to be paired with incentives, follow up information and targeted interventions and management payments

54. There is a need for better quality farm-level activity data to feed the national inventory. For example, mapping of hedgerows and understanding of soil carbon potential

• **Identifying both emissions mitigating and negative emissions opportunities, e.g. through carbon sequestration**

• **Attracting investment for carbon management in agriculture and the land use sector?**

**170) Should eligibility to trade in sequestered carbon on farms be conditional on the vendor demonstrating that an acceptable level of farm emission reduction has been achieved?** (Further work would be needed to define 'acceptable' levels of emissions reduction and could be sub-sector or farm specific).

55. FUW members were divided on this issue. Some were strongly of the opinion that it should be up to the individual business to decide whether or not to sell credits from GGR outside the business/agriculture

56. However many thought that it would be wise for farms to ensure that their own business, and agriculture as a whole in Wales could achieve Net Zero firstly, before selling credits out of the industry (please see point 5.)

57. An unintended consequence of this approach could see a limited supply of offsets/GGR from farmland being available on the market, thus increasing the likelihood of investors purchasing the underlying asset themselves (i.e. the land) to generate their own credits.

**171) Which sectors within agriculture & land use should we prioritise to establish baseline data with MRV?**

58. FUW members did not understand why the Government would be looking to focus only on certain sectors or sizes of farms to obtain baseline data- as this could skew the figures significantly. As mentioned, simplifying data but gathering from more farms could be of more use

**172) What do you consider Government's role should be in farm and land use based MRV?**

**a) Should Government consider mandating the use of MRV for the sector or subsectors?**

**b) To support this, should Government introduce standardised protocols or tools, beyond the voluntary PAS2050 code?**

**c) Or alternatively, should Government provide a standardised framework for the market to develop protocols to achieve the data reporting outcomes required?**

59. FUW members believe that the Government should provide a standardised framework which is as closely aligned as possible to global standards

60. Please see points 37-45

61. FUW members felt that mandating MRV fails to take into account the makeup of family farms, which are often SME's based on unpaid or family labour- members commented that they do not have a full time office-based staff member able to collect and input this data, therefore these requirements could place undue burdens on farm businesses. Assessing a farm's carbon footprint is more complex than other industries due to the range of greenhouse gas emissions involved.

62. Furthermore, as outlined previously, MRV and carbon issues are often viewed as being used negatively against agriculture, thus reducing farmers' willingness to engage in the process. Incentivisation would have a far more positive and effective impact than further regulating and mandating the industry

**173) Is voluntary monitoring, reporting and verification in the agricultural and land use sectors likely to achieve sufficient uptake and accuracy to improve business efficiency, decarbonisation and decision making by farmers, retailers and government?**

63. There are no 'silver bullet' solutions to tackling climate change and a long-term commitment to a range of policy measures supporting the transition to net zero agriculture will be needed

64. Incentivising self-led data collection through a portal farmers are already accustomed to, followed by targeted support would be far more impactful (please see points 37-42).

65. As previously mentioned, equivalence in trading will also be crucial, whether that is through a CBAM or through Government following through with their commitment to safeguard environmental and food quality standards in trade negotiations.