

Developing a Woodland Water Code, barriers and opportunities for landowners

Lunchtime seminar summary • 24th January 2024

This document provides a summary of the seminar exploring the barriers and opportunities for landowners in reference to the developing Woodland Water Code (WWC). The discussions have been grouped into key themes, and key follow-up actions have been identified.

Eligible activities

WWC requirement: Only woodland creation projects are eligible for the WWC.

Constraint: Agroforestry and hedgerow planting are excluded. These systems are expected to be more attractive for high grade agricultural land.

FR Response: Inclusion of other tree/ vegetation planting will increase the complexity of the WWC, both in terms of the quantification of water benefits and for defining the rules for key issues such as leakage and permanence. Therefore, only woodland will be included in the first iteration of the Code, but expansion to other types of tree planting will be a key consideration for future refinements. It is noted that this may prevent certain landowners, such as dairy farms from interacting with the WWC. However, it is assumed that localised credit values, set by the market, can unlock woodland creation on high grade agricultural land. In addition, riparian planting could provide an option for limited conversion of land to woodland, with higher revenues per land area from water credits.

Key points raised: It was agreed that being locked into permanent land use change is not a barrier to landowners - providing the economic benefits are sufficient and the terms are fair.

Eligible land

WWC requirement: Only projects identified by the target maps are eligible.

Target maps are currently being developed to identify areas with failing water quality status. How water resource issues are considered is still to be determined. Key points raised:

- The impact of a woodland creation scheme on water supply in the catchment varies based on woodland type and tree density. This is especially important to consider in the context of drought and the potential for trees to reduce water resources in sensitive catchments.
- UKFS requirements and EIA regulations are in place to avoid large-scale planting of conifers or short-rotation forestry in areas affected by water resource issues.

Combining with other credits/ incentives

WWC requirement (TBC): The WWC is expected to be used in conjunction with other credit systems which meet the accreditation, financial and legal additionality requirements. This will enable the WWC to be used in conjunction with the Woodland Carbon Code (WCC), but it is likely to exclude the WWC from being used alongside compliance credits, such as biodiversity net gain (BNG).

Key points raised for defining requirement:

- **Clarity and simplicity:** Feedback from several participants that complexity and high costs are key barriers. Consideration needs to be given to ensuring that the WWC is as simple as possible, whilst retaining integrity. Clear information needs to be provided to advisors to enable them to advocate for the WWC.
- **Linking with other Codes/ incentives** is imperative (e.g., BNG, soil carbon). It was suggested that the WWC should be outcome based rather than activity based, moving away from WCC pseudo-grant payments. Based on current markets, it is assumed that landowners will need to decide between compliance and voluntary markets.
- **Stacking vs bundling** (TBC): see 'Designing Woodland Water Credits' section below.

- **Linking to other government policy** is needed to support the application of the WWC, but in practice this is difficult to achieve.

Verification

WWC requirement (TBC): Verification of WWC projects to ensure that the water benefits have occurred as well as continuing sustainable forest management.

Key points raised for defining requirements:

- Costs to landowners associated with verification must be reasonable and transparent.
- Need for clarity on evidence base underpinning the code.
- Ensuring woodland management meets current good practice to avoid any disbenefits of woodland to water.
- Enabling projects to be grouped to minimise the reporting burden on small scale projects.

Leakage

WWC requirement: The land manager shall confirm any plans to change or intensify the use of land elsewhere on the holding as a consequence of the woodland creation. If leakage (land use change/intensification outside the project boundary but within the catchment) is envisaged, then projects shall carry out an assessment to determine the extent to which this will result in a disbenefit to water.

Verification: For projects with a water quality component, land managers must report how planned woodland creation will impact on stocking densities and manure/slurry handling on rest of land holding, and demonstrate no leakage of baseline activities.

Validation (TBC): Checks need to be put in place to ensure that any leakage is accounted for in the quantification of water benefits. It is noted that this will be difficult to validate.

Key points raised for defining requirements:

- Remote sensing was suggested as a potential option, but likely to be too costly.
- It was noted that larger-scale interventions avoid leakage through assessment at the farm/land holding level or sub-catchment level.

- The role of farming regulators as validators was also raised.

Designing Woodland Water Credits

Key points raised:

Metric: Concern that water benefits are difficult to quantify and that the metrics will be complicated. The WWC are currently developing methodologies with the support of a Technical Group. It is key that the metrics, methodologies and supporting methods and rules demonstrate the research underpinning the benefits to provide market confidence.

Valuation: It is proposed that water credits should have localised values set by the market to reflect the nature of the project (land values, extent of water issues, buyer willingness to pay). It is not for the Code to stipulate the price, instead it acts as a private market enabler and crucially provides market confidence in the credited benefits. However, an indication of profitability is required to assess whether Woodland Water Credits are a) competitive with other markets (e.g., BNG and nutrient trading), and b) provide sufficient incentives to unlock woodland creation projects.

Stacking vs bundling: Further work is needed to understand the pros and cons of each. There is ongoing work outside of the project which will influence the outcome, e.g., work undertaken by Defra assessing stacking.

Market confidence: The WWC must demonstrate how benefits are ensured to build market confidence. Insurance/ re-insurance companies will not become buyers until market confidence has been established.

Payment schedule: Upfront payments are required to support landowners in meeting the capital costs associated with woodland creation. This should be coupled with payments aligned with validation checks to ensure that the water benefit(s) are being delivered, providing a long-term obligation for landowners to maintain the woodland (e.g., restocking if required). This will vary by water benefit (water quality, NFM and water cooling). Clarification is needed on whether benefits will only be sold as verified credits (i.e., once the benefit has arisen), or as predicted credits (i.e., an equivalent of Pending Issuance Units (PIUs) in the WCC).

Minimising burden/ risk to landowners

Key points raised:

- Government should play a role in offering first loss insurer liability with respect to force majeure to minimise risks which are outside of the landowners' control. This includes both risks to the woodland and other factors which may impact water outcomes, such as increased pollution resulting from disturbance to the woodland by fire or windblow.
- There is a need for a standard set of terms for contracts. A current key barrier in nature markets is the time and resources needed to put contracts in place.
- Clarification of tax implications (income tax, inheritance tax, tax on the credits) is needed.
- There is a need for a landscape vision to enable sufficient scale of credits to be generated to attract bigger investors and to ensure that water benefits are delivered at a catchment scale. This could include linking with Local Nature Recovery Strategies in England, and Nature Networks (NPF4) in Scotland.

Next steps

Key follow-up actions:

- Explore options for checking and validating no leakage.
- Finalise briefing on designing Woodland Water Units and circulate for comment.
- Incorporate the findings from this seminar into the working version of the WWC Methods & Rules document.
- Evaluating a range of woodland creation projects to assess potential profitability and the impact of public-grant funding on credit prices. This will be done through the piloting phase of the project.
- Exploring requirements for schemes on Local Authority land and how to support greater uptake.

- Promote the findings of the Riverwoods Scientific Evidence Report underpinning the case for creating a network of river woodlands across Scotland to support healthy and resilient river systems. The aims could be universally applied across UK.

The WWC is currently under development, with the aim of having a draft Code, that has been piloted on a range of woodland creation project, complete by March 2025.

Stakeholder engagement will be ongoing throughout this phase of the project. If you registered for this seminar, you may receive information about future events. If you would like to be removed from our mailing list, please contact rosie.brook@forestersearch.gov.uk.

In addition, if there are particularly aspects of the Code that you would be interested in discussing, please provide your details and a brief description of your interests using this survey: <https://forms.office.com/e/hyxFxiNmwr>.

Thank you for your interest and support in the WWC.