

# Voluntary carbon and nature markets consultation

## ENVIRONMENTAL MARKETS BOARD RESPONSE

### EXECUTIVE SUMMARY

#### **Role of nature markets**

The Environmental Markets Board (“**EMB**”) is providing governance and oversight of markets for nutrient mitigation and biodiversity gain. From our experience, well designed nature markets can be a strategic, efficient and effective way of providing financial incentives for farmers and landholders to integrate nature into their farming and land management practices.

The EMB considers that nature markets should not be seen as a last resort for offsetting but are primarily about accelerating nature recovery. Nature markets are nonetheless not a substitute for effective environmental regulation and government funding for the environment.

In the EMB’s view the fact that to date in the UK, nature markets have not developed to the scale needed to address issues such as nutrient neutrality is function of a range of systemic barriers and does not mean that nature markets cannot work.

The EMB is encouraging governments across the UK need to take a leadership role in establishing the underpinning legislation, market rules and infrastructures needed to enable the development of high integrity nature markets.

Business, along with the finance, farming and land management sectors have all told us, that in the absence of decisive action by UK governments, nature markets in the UK will not develop at scale.

*‘Scale cannot be achieved without effective governance that substantially reduces uncertainty and risk for market participants across the nature supply chain’.*

Source: NMD Report and Proposal, Broadway Initiative 2025

The EMB sees scaling up nature markets as an important opportunity to contribute to regional growth across the UK and ensure that rural communities obtain a fair share of the benefits of development, including the benefits from nature-based investment.

From a policy perspective, well designed and governed nature markets should be a key element of an overarching strategy for mobilising the public and private funding and finance needed to restore nature and meet legislated carbon and environmental targets.

We also see that nature markets can play a key role in helping to deliver planning and Infrastructure reforms, including in England the proactive use of the Nature Restoration Fund as a demand driver for nature market development.

It is therefore the EMB's firm view that the key policy question for the VCNM consultation is not whether we should have nature markets, but rather how do we support their development to enable them to make a substantial contribution to regional growth and environmental improvement across the UK.

The EMB therefore welcomes the VCNM consultation as an important way to progress policy development on these issues.

### **The need for market governance**

Biodiversity and ecosystem services are credence goods, where asymmetries between market intermediaries, suppliers, and buyers creates the risk of exploitation and fraud, and creates the potential for greenwashing.

The EMB therefore welcomes actions being taken by government to improve market integrity, including the British Standards Institution ("BSI") Nature Investment Standards Programme. However, these actions are piecemeal and lack a robust and coherent market governance framework.

### **Systemic barriers**

In addition to the absence of a market governance framework, nature market development in the UK has been hindered by a range of systemic barriers including:

- legal uncertainty about the status of environmental credits (see Question 32)
- the absence of a coherent policy on stacking and institutional barriers to stacking embedded in the Woodland Carbon Code and Peatland Code (Questions 41 and 42)
- inconsistency in the approaches being used for insetting and credit markets (see Questions 7 and 8)

- the conflicts of interest of environmental regulators between their role as a statutory advisor to Local Planning Authorities, and their role in administering funding for offsets for development.

### **Governance gaps**

As a result of the lack of a market governance framework, there are three major governance gaps that threaten UK nature market integrity:

- No process for the review and approval of methodologies for quantifying the benefits delivered by nature-based activities (see Question 8)
- No common market rules that translate integrity principles into practical enforceable obligations (see Question 34)
- No system of independent third-party oversight of market operators (See Question 43)

### **Adequacy of proposed measures**

The EMB supports many of the measures set out in the consultation, however we consider that taken together, a system of voluntary compliance with best practice standards, with assurance provided by accredited conformity assessment bodies, is insufficient to provide the level of trust and confidence in market integrity needed to enable markets to scale.

The EMB supports in particular the establishment of a Nature Market Accelerator and commends the UK Nature Market Governance Scheme developed by the Nature Markets Dialogue as a practical proposal for delivering the market governance elements (see Question 35).

As the EMB has piloted a system of monitoring and enforcing compliance with approved standards and market rules in the operation of environmental markets, the EMB would be interested in piloting the market governance functions of the proposed Nature Market Accelerator.

## INTRODUCTION

### About the Environmental Markets Board

The Environmental Markets Board (“EMB”) was established in 2023 to develop and implement a system of governance and oversight, initially for catchment markets for nutrient neutrality and biodiversity gain in Somerset and the Bristol Avon. Its role has recently expanded to also cover markets in Wiltshire and Cornwall.

The EMB comprises individuals with extensive experience across farming, conservation and land management, science, economics and regulation. The purpose of the Board is to:

- a) Oversee the governance framework for environmental markets in particular geographic areas (‘governance’).
- b) Ensure there is a transparent, fair and efficient set of rules by which landholders can offer to supply nature-based projects on their land, and third parties can bid for the rights to the environmental services delivered by these projects (‘market rules’).
- c) Monitor, report and advise with the aim of securing compliance with the market rules in the operation of the environmental markets (‘market oversight’).
- d) Appoint a scientific advisory group to provide expert scientific advice in relation to the relevant standard(s) and monitoring plan(s) to apply in the markets; (‘scientific advice’).
- e) Approve collaboration agreements proposed for the development and operation of markets in particular catchments or geographic areas; (‘collaboration’).
- f) Require that the market operator(s) maintain the market infrastructures, systems and processes necessary to operate high integrity environmental markets (‘market infrastructures’).
- g) Provide advice to government and regulators on the future governance of environmental markets (‘future governance’).

### Our experience

The EMB has responded to the questions in the VCNM consultation where it has direct experience and insights from its governance of the nature markets it oversees and its engagement with market stakeholders.

Our experience is that on a modest scale, nature markets are delivering results in terms of real improvements in biodiversity and ecosystem services which are contributing to regional development and economic growth.

However, it is also our experience that there are a range of systemic barriers that are preventing nature markets from achieving the scale needed to meet the government’s environmental targets and becoming a driver of regional economic growth.

From our experience and knowledge of market stakeholders it clear that in the absence of decisive action by UK governments to establish legally robust market governance frameworks that ensure market integrity, nature markets in the UK will not develop to the scale needed to make a substantive contribution to the UK’s targets for nature restoration.

## RESPONSE TO QUESTIONS

In our responses to the questions references to ‘nature markets’ include markets for nature-based projects or activities that generate environmental benefits including carbon mitigation and sequestration and/or improvements in biodiversity and ecosystem services.

Our responses have been framed as applicable to both voluntary and compliance markets as we consider that a critical aspect of market integrity is consistency between the voluntary and compliance markets.

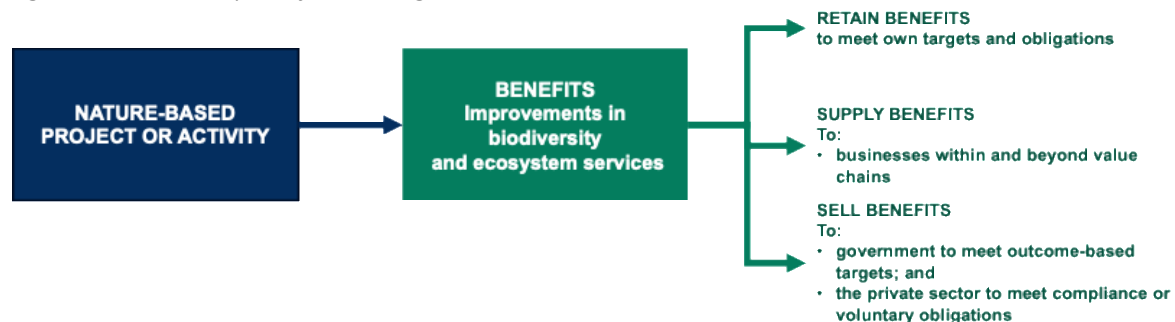
***Principle 1: Use credits in addition to ambitious actions within value chains***

**Q7 Insetting: Is there an appetite amongst stakeholders for further standardisation of high integrity insetting approaches to industries, particularly the FLAG<sup>1</sup> sector?**

**Yes, the commercial and contractual relationships between the parties in a supply chain means that there is at least as much risk of greenwash with insetting as in credit markets**

The supply of benefits through the value chain (insetting) is one of the three broad options available to landholders to obtain a return from investment in nature-based activities on their land.

Figure 1 - Landholder options for obtaining a return on investment



<sup>1</sup> FLAG is defined in the VCNM consultation document as Forest Land and Agriculture.

*Source: NMD Report and Proposal, Broadway Initiative 2025*

Because of the commercial and contractual relationships that exist between the parties in a supply chain, there is a strong need for both standardisation and independent oversight of how benefits are quantified and accounted for in these supply chains.

We recognise that there are differences between insetting and offsetting. In carbon markets for example insetting typically involves an annual balancing of reductions and emissions across the supply chain and can include nature-based projects and activities of different durations which do not necessarily need to be permanent.

Nonetheless, common (or equivalent) methodologies and metrics are essential to ensure that a tonne of carbon sequestration, a kilogram of nutrient mitigation or a unit of biodiversity is the same whether it is used for insetting, providing credits towards nature recovery targets, or offsetting.

#### **Q8 Insetting: What other support could help reduce barriers to, or facilitate insetting?**

**The development, approval and use of common methodologies and metrics for quantifying the biodiversity and ecosystem services from nature-based projects.**

##### Methodologies and metrics

The failure of carbon markets to establish an independent process for the review and approval of methodologies and metrics, including their application across both regulated and voluntary markets, has been a key source of governance failure and loss of trust and confidence in credit integrity.

Insetting faces similar risks. To avoid inconsistency and variation leading to confusion, complexity and unnecessary cost, the methods and metrics for quantifying the benefits from nature-based projects and activities should be common whether the benefits are being retained, supplied within value chains or sold as credits to meet regulated or voluntary obligations.

In the UK, except for the Environmental Markets Board, there is no third-party mechanism to review and approve methodologies and metrics to be used to quantify and verify the biodiversity and ecosystem services delivered by nature-based activities. The BSI Nature Investment Standards Programme is not addressing this governance gap (see response to Q12 below).

The EMB notes that internationally, governments are putting in place ways of ensuring that the methodologies and metrics used in nature markets are subject to independent review

and are fit for purpose. The UK risks falling behind internationally if it does not take steps to address this gap.

#### Accounting methodologies

We can see no substantive reason why methodologies and metrics for generating credits ('intervention accounting') cannot be used as a way of validating and aggregating improvements in biodiversity and ecosystem services in supply chains ('inventory accounting').

In fact, there is a significant risk of creating confusion for landholders, uncertainty for buyers, and cost to market operators if clarity about the role of crediting in supply chains is not addressed. The EMB therefore strongly support developing an agreed approach to the interaction between intervention and inventory accounting.

#### *Principle 2: Use high integrity credits*

**Q12 BSI Assurance: Do you think that there are any additional considerations around assurance for BSI Nature Investment Standards that the Government should take into account?**

**Yes, market integrity requires more than assurance that a market participant meets the voluntary principles of the BSI standards.**

The Environmental Markets Board considers that the work of the BSI in developing standards for nature investment is an important step forward but on its own is insufficient to provide certainty and confidence in the integrity of UK nature markets.

The EMB considers that a robust nature market governance framework needs to address the four dimensions of market integrity illustrated in Figure 2 below.

*Figure 2 - Dimensions of nature market integrity*



Source: NMD Report and Proposal, Broadway Initiative 2025

Independent third-party assurance of market participant compliance against the BSI principles may provide general assurance of Operational Integrity but will not provide specific assurance of Project Integrity, Credit Integrity or Buyer Integrity.

The EMB notes that the BSI Overarching Standard, Flex 701 states that it excludes 'specific requirements for the delivery of different types of nature-based projects or trading in different nature markets' (Project Integrity) and 'the measurement of environmental outcomes from specific types of nature-based projects' (Credit Integrity).

Project Integrity comes from third-party assurance of compliance against technical standards such as the UK Forest Standard. Credit Integrity comes from assurance that credits have been generated through the correct application of a robust and approved methodology e.g. the Biodiversity Metric.

As outlined in our response to Q8 above, there is a fundamental need for a process by which methodologies and metrics can be independently reviewed for their scientific, economic and legal robustness and approved for use in voluntary and compliance markets.

The BSI standards with their focus on nature credit markets also do not provide a framework for ensuring the integrity of claims of environmental improvements delivered through supply chains (see response to Question 12).

**Q15. Do you think that there are any capacity barriers or other issues faced by validation and verification bodies in the UK or internationally.**



**Yes, validation and verification bodies need to be providing assurance against agreed methodologies, metrics, credit definitions and typologies to provide certainty about the environmental outcomes being delivered**

Credit buyers and investors need to know what they are buying. Validation and verification bodies providing assurance to these buyers and investors need certainty of the legal basis of a nature credit, and a standard credit typology that sets out the benefits different types of credit represent (see response to Question 32).

In the absence of agreed methodologies and metrics, investors and credit buyers need to carry out their own time-consuming and costly due diligence on the nature-based projects that generate the benefits they are acquiring and monitor the compliance and performance of these projects into the future. This represents a very substantial barrier to buyer and investor participation in nature markets and is the reason why participation in nature-based credit markets is on hold (see Q30 below).

**Q30. For existing initiatives, do you see any barriers that would stop your organisation, or others from participating?**

Having been burnt by the lack of integrity in some carbon markets, business and finance sector stakeholders have said that their participation in nature-based credit markets is ‘on pause’, until governments establish sufficiently robust governance frameworks with the legal underpinning needed to de-risk investment and deliver the level of certainty provided in other environmental markets such as renewable energy.

Based on the Environmental Markets Board’s participation in the Nature Markets Dialogue, there is a clear consensus across the farming, land management, finance, business and environment sectors, that without decisive action by UK governments there will be insufficient trust and confidence in nature markets for business and the finance sector to participate at any significant scale.

In the shadow of the governance failings of voluntary carbon markets, on-going lack of trust and confidence in nature market integrity is a fundamental barrier to business participation and market development.

The lack of a consistent and transparent process for developing and approving methodologies and metrics, and continued uncertainty about what a nature credit represents, and its legal status, are the most significant on-going sources of uncertainty and risk.

**Q31. Do you think that the legal status of credits in the UK is sufficiently clear?**

**No the legal status of a nature credit in the UK is not sufficiently clear and needs to be confirmed as an intangible personal property asset.**

The Environmental Markets Board understands that the Property (Digital Assets etc) Bill provides a degree of certainty about the legal principle that digital assets may be considered as a distinct category of intangible personal property. However, the proposal to leave it to the courts to establish whether the principle applies to nature credits retains a major barrier to investment.

For the efficient operation of nature markets, nature credits need to be confirmed as a category of intangible personal property, to provide the certainty and liquidity necessary to enable the finance sector to design nature investment products that match investor appetite for risk and return. Government should therefore define a clear nature credit typology to which the principle applies (see below).

*A: Greater legal certainty is particularly important for nature-based credits*

There is a need to be clear what a credit represents in terms of environmental outcome(s). Nature-based projects and activities deliver multiple benefits and therefore have the potential to generate multiple credits.

A definition and typology of credits has been proposed for the UK through the [Nature Markets Dialogue](#).

### Definition

Nature credits are market instruments that represent a verified quantity of an environmental benefit or outcome delivered by a nature-based activity.

### Credit Typology

There are broadly three types of nature credit:

- Ecosystem credits (e.g. wetlands)
- Biodiversity credits (e.g biodiversity gain, habitat for a particular threatened species)
- Ecosystem service credits (e.g. carbon, nutrient mitigation, natural flood management)

An ecosystem credit is a single credit that represents a whole ecosystem including the biodiversity and ecosystem services it delivers.

A biodiversity credit is a credit that represents a quantity (or stock) of habitat.

An ecosystem service credit is a credit that represents a quantity (or flow) of an ecosystem service delivered by a nature-based activity.

### **The UK is at a disadvantage to countries that have provided legal certainty**

Countries which have provided certainty over the legal status of credits have seen substantial investment in nature-based solutions.

For example, Australian Carbon Credit Units are a well-defined and accepted class of asset that are extensively traded as part of the Australian carbon market.

Section 150 of the *Carbon Farming Initiative Act 2011* (Cth), establish that an Australian Carbon Credit is personal property.

*‘An Australian carbon credit unit is personal property and ..... is transmissible by assignment, by will and by devolution by operation of law’.*

The certainty created by this legislation eliminates the legal risk faced by investors in the UK and puts the UK at a competitive disadvantage for nature-based carbon investment.

**Q34. Do you agree with the functional requirements set out for a high integrity UK market governance framework: standards; assurance; accreditation and regulatory oversight.**

**Yes, the broad governance functions of policy (market rules), standards, accreditation, assurance and oversight are necessary elements of a high integrity governance framework.**

However, the framework needs to include a robust process for approvals of metrics and methodologies, legal certainty over what a credit presents and its duration, and mechanisms for compliance and enforcement need to be more clearly defined.

**Q35. Do you agree that the measures set out in this consultation will help to provide appropriate regulatory oversight for UK VCNMs at their current stage of development? If not, what other interventions may be appropriate?**

**No, A system of voluntary compliance with best practice standards, with assurance provided by accredited conformity assessment bodies, is insufficient to provide the level of trust and confidence in market integrity needed to enable markets to scale.**

In environmental markets scale follows integrity. Environmental markets trade in credence goods and services which require market participants to have a high level of trust in a range of service providers and market intermediaries needed to carry out different nature market functions (see below)

Organisations and individuals offering to provide nature market services need to be properly authorised and independently accredited to enable suppliers and buyers to participate in nature markets with confidence.

The Environmental Markets Board is not aware of any environmental market in the world that has attracted substantial private investment to achieve public policy goals that is not underpinned by a legally robust governance framework. The EMB is also not aware of any other significant UK credence goods and services markets (e.g. legal, medical, financial services and a range of other trades and professions) that are not underpinned such a framework.

A nature market governance framework capable of restoring business and investor confidence needs robust legal underpinning, to create consistent market rules and enforceable obligations and remedies for non-compliance across all UK Nature Markets.

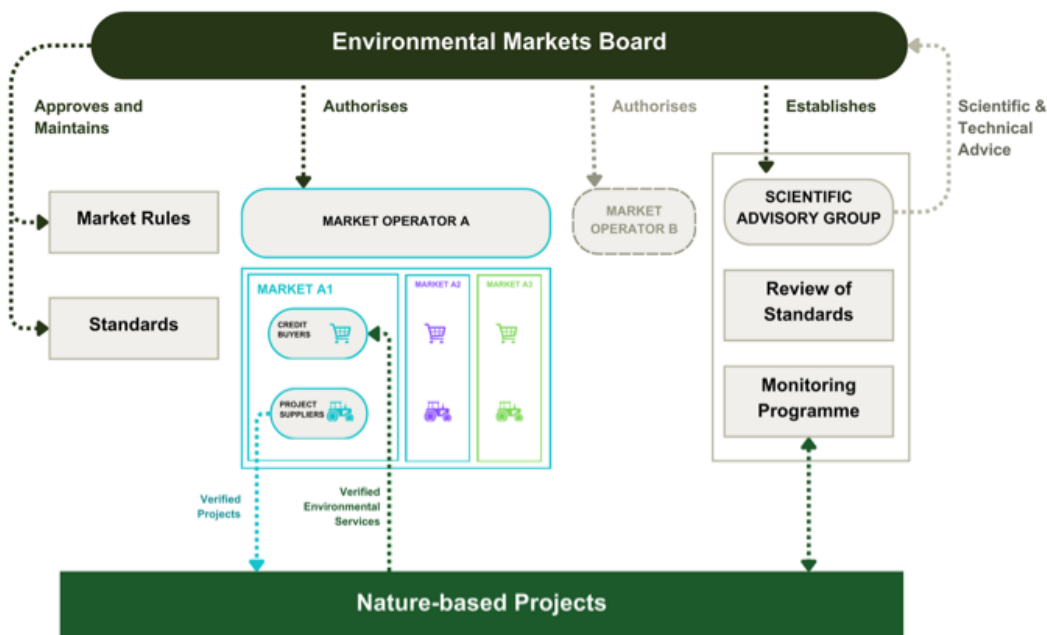
The EMB therefore encourages consideration of establishing a UK Nature Markets Governance Scheme along the lines of the proposal developed through the UK Nature Markets Dialogue outlined below.

## **UK Nature Market Governance Scheme**

It is important to distinguish the governance model currently operated by the Environmental Markets Board (see Figure 3) from the proposed UK Nature Market Governance Scheme (see Figure 4).

While many of the oversight functions, including auditing compliance with market rules and the scientific review of standards and oversight of monitoring are similar, the fundamental difference is that the EMB model is voluntary with compliance achieved through a market operator agreement with each participating organisation.

Figure 3 - Operation of the Environmental Markets Board



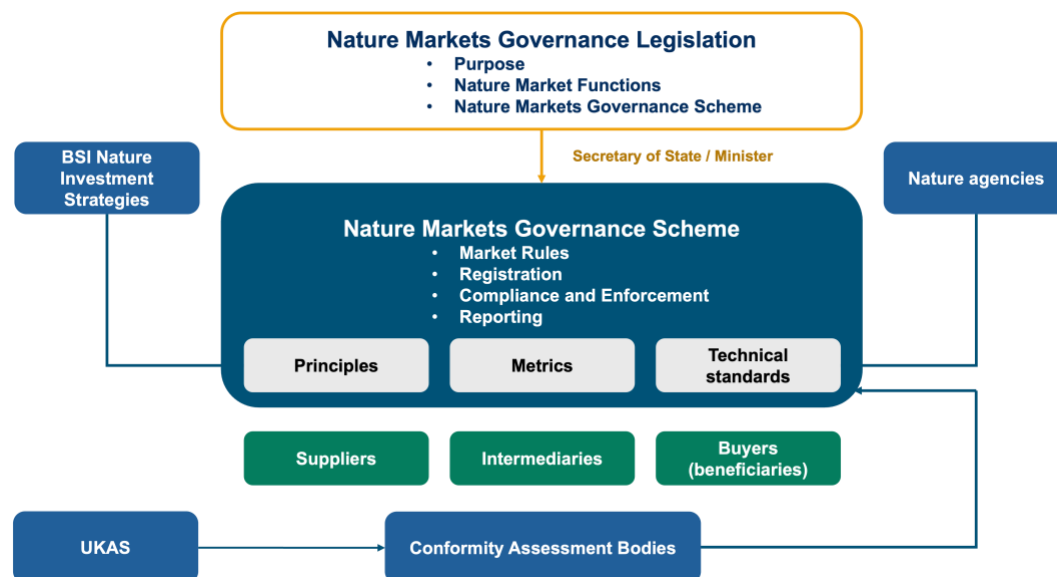
Source: Environmental Markets Board Website<sup>2</sup>

By contrast, the UK Nature Markets Scheme is mandatory, with market rules approved by the Secretary of State/Minister. Under the Proposal, enforcement for non-compliance with the market rules would ultimately be through de-registration of a person authorised to carry out a nature market function(s).

We consider that the proposed UK Nature Market Governance Scheme developed through the UK Nature Markets Dialogue strikes an effective balance between the power to regulate the nature market sector which is conferred on and retained by the Secretary of State/Minister and the flexibility of a specialist industry focused and independent governance body.

Figure 4 - Proposed UK Nature Market Governance Scheme

<sup>2</sup> <https://www.environmentalmarketsboard.org.uk>



Source: UK Nature Markets Dialogue: Key Findings and Proposal June 2025.

## Implementation

The EMB is an operating nature market governance model with a set of market rules and standards. Since 2023 we have ensured transparency in the operation of the market through the publication of market information, market outcomes and payments. We have carried out independent audits of compliance with the market rules and overseen the implementation of market improvement plans to ensure the market operator has systems and processes in place to ensure on-going compliance. We have also established a Scientific Advisory Group to review proposed methodologies and metrics and oversee the monitoring of the delivery of environmental outcomes.

We consider that the Environmental Markets Board could readily transition to pilot the UK Nature Market Governance Scheme, though its establishment as an independent legal entity, appointment by the Secretary of State, and working with nature market operators, market participants and nature conservation bodies to develop market rules for approval.

**Q. 36 Do you agree with the considerations for the cross-regulatory working group, and are there any additional priorities for their inclusion.**

**No, in the light of the Corry Review and the Interim Findings of the Independent Water Commission, we do not consider that the proposed cross-regulatory working group is an appropriate mechanism to address these considerations.**

The current regulatory framework is one of the main barriers to the development of nature markets, particularly in England. We agree strongly with Dan Corry that overall, the current system of environmental regulation is inefficient and needs to work in a different way.

Well-designed environmental markets effectively integrate legal, economic and environmental principles and provide practical solutions where these principles intersect and potentially conflict.

We agree that it would be helpful for the economic, environmental, financial, advertising and other relevant regulators to come together to clarify (and document and share) existing regulatory activities that relate to project, operational, and claim integrity.

However, we do not think that a group comprised solely of regulators can provide the insight into and challenge to the existing regulatory framework and the barriers it creates for the development of nature markets. As the example from the water sector shows ‘a complex layering of statutory duties and regulatory obligations’ is at best difficult and costly to navigate and at worst creates insurmountable obstacles to nature-based solutions.

We also consider that organisations and individuals with expertise and experience in the design, governance and operation of environmental markets need to be closely involved in helping to establish an overall regulatory framework and the interfaces with existing regulators.

## Stacking

**Q41 Do you agree that the Government should trial a greater degree of stacking to gather real-world data on the benefits and challenges.**

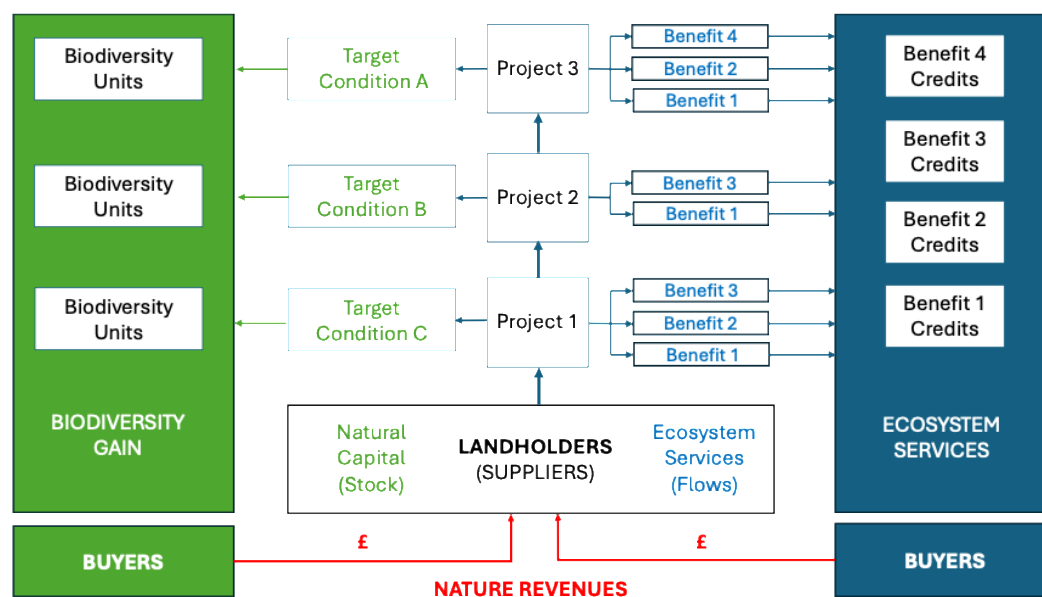
**We agree that there should be a greater degree of stacking allowed in nature markets but consider that with a robust market governance framework a trial may be unnecessary and could further delay the scaling of UK nature markets.**

A limited form of stacking in UK nature markets has been allowed for nutrient mitigation and biodiversity gain since March 2023. We are not aware of any evidence that allowing this form of stacking has had any negative impact in the real world. The Environmental Markets Board has been overseeing both biodiversity gain and nutrient markets and sees no inherent problem with stacking these benefits.

Similarly, the England Woodland Creation Offer (‘EWCO’) has also been in operation since 2021 and involves payments for stacked benefits. Again, we are not aware of any evidence that allowing this has had any negative impact in the real world. The EWCO is an example of using stacking to optimise the environmental outcomes from nature-based projects while paying farmers and landowners for the full range of biodiversity and ecosystem services the woodland provides.

In the context of a robust market governance framework, stacking in nature markets has the potential to increase their transparency, fairness, and efficiency. Above all stacking can increase the incentives for landowners to develop high quality nature-based projects that maximise ecosystem function. How project stacking and benefit stacking work to increase these incentives is shown below.

Figure 5 – Project stacking and benefit stacking in biodiversity and ecosystem Service markets.



Source: Towards a Governance Framework for High Integrity Nature Markets, December 2024.

We therefore consider that maintaining direct and indirect restrictions on stacking, for example in voluntary carbon markets is damaging to market integrity. Using the Woodland Carbon Code as an example, the ecosystem services are bundled<sup>3</sup> into the carbon credit price and sold at the same time as the carbon credit itself. Finance sector stakeholders advise us that this has 4 impacts:

<sup>3</sup> Bundling in the Woodland Carbon Code does not involve the quantification or certification of the biodiversity and ecosystem services are included in the bundle with the carbon.



- i. There is a lack of transparency about exactly what is being purchased in a Woodland Carbon Code units ('WCCu'). A buyer of a WCCu is acquiring a carbon credit which is internationally fungible, bundled with an unspecified quantity of biodiversity and ecosystem services which are not internationally fungible.<sup>4</sup>
- ii. As a result, there is significant variability in WCCu prices, depending on what type of forest is the source of the units. This is confusing to the market and adds to the lack of transparency.
- iii. Carbon revenues do not commence at any scale until around Year 15 and prior to that there is a cashflow gap making WCCu projects extremely difficult to finance.
- iv. The time-value-of-money is an important consideration for an efficient market. Stacking would permit other biodiversity and ecosystem services to be monetised earlier than Year 15 in line with the timing of receiving these benefits. Restricting these earlier payments is preventing the market from developing.

The Woodland Carbon Code and Peatland Code ('Carbon Codes') also limit the revenues that farmers and landholders can obtain from restoring nature (see tests for additionality below). We question the ethical, economic, and environmental basis of maintaining such restrictions.

As flagship voluntary nature-based carbon schemes that are actively promoted by UK governments, it is important that the Carbon Codes are not themselves barriers to UK nature market development, do not risk sub-optimal outcomes for landholders, communities and the environment, and do not undermine international principles for trading biodiversity credits.

Although we are concerned that it is not clear what a stacking trial would achieve, and whether the costs of a trial, including the significant risk of further delaying nature market development would outweigh the benefits, a trial of the removal of the direct and indirect barriers to stacking in the Carbon Codes could be a step forward.

We consider that it would be very important that such a trial to be undertaken before the Carbon Codes are considered for inclusion in the UK ETS.

Q. 42 What are the biggest challenges and opportunities of such a trial

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<sup>4</sup> IAPB Framework for high integrity biodiversity credit markets, October 2024.

**The biggest challenge to stacking, under trial conditions or more broadly would be reaching agreement on the tests for additionality that would be applied and establishing the market registry requirements for a trial.**

In offset markets<sup>5</sup>, accounting differences between the impact (buyer) and offset (seller) are not caused by stacking. They are the consequence of the failure of regulation to require all the environmental harm of a development to be offset.

The Biodiversity Net Gain Scheme ('BNG') is a paradigm case. Under section 90A and Schedule 7A of the Town and Country Planning Act there is no obligation for a developer to offset losses of carbon stored in the habitat removed. There is therefore '*incomplete coverage*' of the regulation of the harm (Cooley and Olander, 2012).

As a result of the incomplete coverage, the carbon that was stored in the lost habitat is not measured. Similarly, the carbon stored in the biodiversity gain habitat is not measured. There is therefore '*incomplete accounting*' for the full losses and gains in the BNG scheme (von Hasse et al, 2019).

Although the carbon impacts have not been quantified, if there is asymmetry between the carbon stored in the habitat at the biodiversity gain site and the carbon that was stored in the habitat lost at the development site, there may be a net gain or a net loss in the carbon stored.

Asymmetrical accounting is not solved by prohibiting stacking. It may however be addressed by well-designed tests for additionality.

## Tests for additionality

Additionality in nature markets is generally accepted to mean verified environmental improvements above a baseline that would not have occurred in the absence of a nature-based project or activity. The EMB sees robust tests for additionality as a critical element of effective nature market governance.

Verified environmental improvement above a baseline is the foundation of market integrity. So, the first test for additionality therefore must be an environmental/benefits test applied to the project or activity.

It is also generally accepted that if a landholder has a legal obligation to undertake a project/activity or deliver a particular environmental improvement the landholder

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<sup>5</sup> Offset markets are taken to include markets where there is a net gain requirement e.g biodiversity gain in England.

should not be allowed to trade these improvements. So, the second test for additionality is a legal test which is applied to the landholder.

Where a project meets the environmental test and the landholder meets the legal test, the environmental improvements delivered are objectively additional. In other words, there is no doubt that environmental improvements have been delivered on the ground that otherwise would not have occurred.

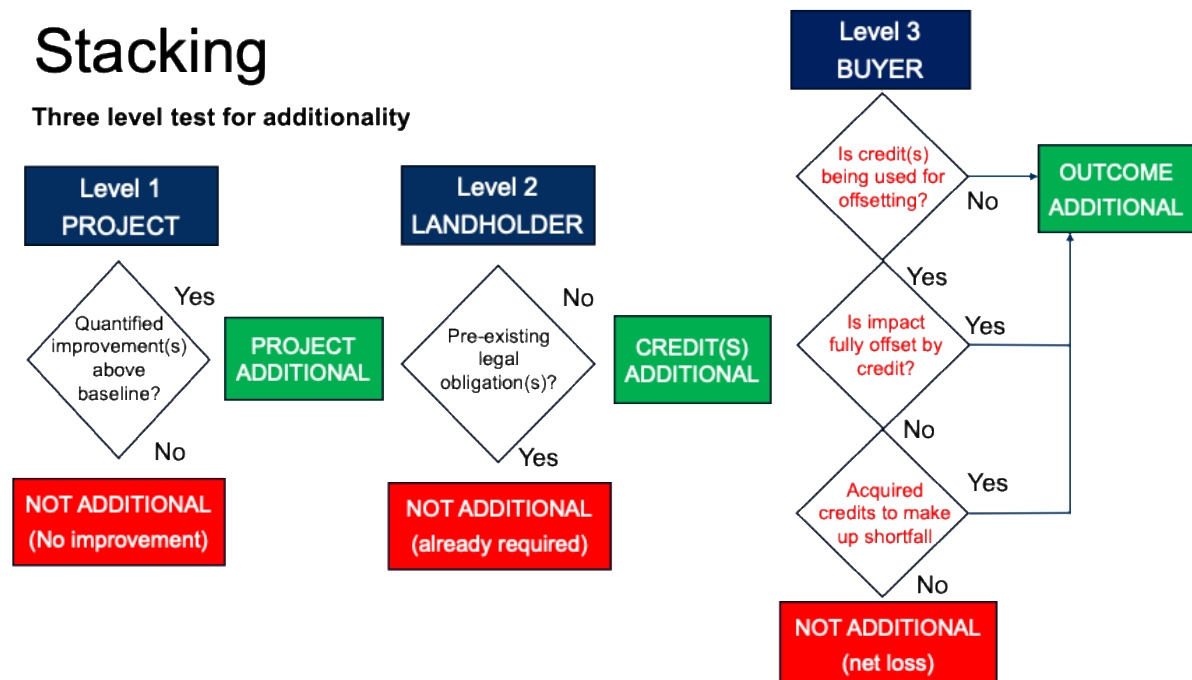
As a matter of principle, farmers and landholders who meet these two supply side tests for additionality should have the right to monetise (supply or sell) all of the environmental benefits generated by the project. The benefits should be able to be stacked or bundled for supply or sale.

However, if the verified benefit(s) is being sold to meet a regulatory obligation to offset harm, and there is incomplete coverage of the regulation of harm, there may be a failure of additionality at the scheme level due to asymmetrical accounting.

So, in the case of offset markets (only), a third test for additionality to demonstrate that a development has quantified and addressed its overall environmental impacts should be applied to the buyer.

The level 3 test for additionality would require that the buyer ensure that the total carbon stored in the habitat at the net gain site must be at least what was lost at the development site or make up any difference through purchasing carbon credits. The application of the three-level test is illustrated below.

Figure 6 - Three-level test for additionality



If these three tests could be agreed, in our view this would be sufficient to progress a trial. However, there would remain the need to agree to remove the financial test for additionality or the ‘Investment Test’ as it is referred to in the Carbon Codes which limit the revenue that a landholder can obtain from a nature-based project and are a significant indirect barrier to stacking.

## Registry requirements

A robust market registry would be required for a trial that could track and trace the multiple credits from projects and the buyers and uses of these credits. The EMB is aware that trading platforms with these capabilities exist and could be utilised in a trial.