Sustainability in Action

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Carbon pricing, carbon farming

Investor insights and impacts

As the urgency to reduce global emissions grows, carbon pricing is emerging as a powerful tool. While many schemes focus on penalising excess emissions, others are beginning to reward climate positive. Nature based removal programmes, a distinct part of the carbon pricing system, can actually generate returns by stimulating activities like reforestation and adopting regenerative agricultural practices. In this way, land can become a vital part of the climate solution. In this edition of Sustainability in Action, we explore how carbon pricing intersects with farmland, soil health and long-term investment, and how Van Lanschot Kempen is helping to drive this transition.

What is carbon pricing and what types of instruments exist?

Carbon pricing is a method used to encourage the reduction of greenhouse gas emissions by assigning a cost to emitting carbon dioxide (CO_2) and other greenhouse gases. By making carbon intensive activities more expensive, the programmes aim to incentivise businesses and individuals to reduce their emissions and invest in cleaner technologies. There are three main types of carbon pricing instruments:

- **Emissions Trading Systems (ETS)** operate on a cap-and-trade approach. The issuing authority sets a cap on total carbon emissions and companies trade allowances. This is the approach primarily followed in the EU. There are also baseline-and-credit systems, where emissions levels are defined for individual entities and credits are issued to those who reduce emissions below this level. These credits can be sold to entities exceeding their levels.
- **Carbon taxes** set a direct price on carbon by levying a fee on the GHG emissions produced or the carbon content of fuels. This approach does not guarantee a specific level of emissions reduction.
- **Carbon crediting mechanisms** generate tradable credits through voluntary activities that reduce or remove emissions. Credits can be earned by projects that avoid emissions (e.g., capturing carbon) or remove CO_2 from the atmosphere (e.g., afforestation).[1]

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1 Carbon pricing dashboard, World Bank Group, 2024

> The success of any carbon trading programme hinges on the price. Projections suggest a steep rise in prices in the coming years.

Carbon pricing by numbers

According to the World Bank Group's State and Trends of Carbon Pricing (2024 and 2025):

- Carbon pricing instruments covered around 24% of global emissions in 2024.
- There are 75 carbon taxes and ETS programmes in operation worldwide.
- Economies with carbon programmes now represent nearly two-thirds of global GDP.
- Over half of global emissions from the power sector and almost half from the industry sector face a direct carbon price.

China has the largest single-country coverage under a carbon pricing scheme. Its recent expansion of the national ETS to include sectors, such as cement, steel and aluminum, added 3 billion metric tonnes of CO2e under regulation. This move increased global coverage from 24% to 28% in 2024. By the end of 2024, 40% of China's total emissions were regulated.

Europe as a continent continues to lead with extensive carbon pricing mechanisms: The EU's ETS remains the largest and most established, covering close to 40% of EU emissions at the end of 2024.[2] An expansion of the scheme by 2030, would further increase this to 75%.

Other large economies, notably Brazil and Turkey, have far reaching plans to expand their emission trading systems. Australia has also made significant progress. Its Australian Carbon Credit Unit scheme (ACCU) is a source of multiple carbon credit operations, supporting reforestation and renewable energy initiatives.

A positive outlook for carbon prices

The success of any carbon trading or removal programme hinges on the price. It must be high enough to incentivise companies to reduce emissions. When the European carbon pricing programme began around 20 years ago, most 'credits' were distributed free of charge. Consequently, the price was negligible in the early years, rising steadily to around 100 euros per tonne of CO_2-equivalent by 2023. However, in 2024, the price fell back to just above 60 euros per tonne CO_2-equivalent, partly due to reduced demand, increased sustainable energy capacity, and a lower gas prices.[3]

Conversely, prices in Australia, for instance, moved in the opposite direction. In 2024, they rose more than a quarter, as companies prepared to comply with new emission regulations. Thus, price developments worldwide are not synchronous. However, projections suggest that prices in most regions will rise in the coming years. In the EU, estimates range from 130 to 400 euros per tonne by 2040, with further increases expected.

How this impacts investors

Global carbon pricing is here to stay. For sectors with material CO_2 emissions, material CO_2 pricing is coming. This can create 'winners' and losers' amongst companies. For investors, carbon pricing mechanisms offer a way to support sustainable practices while potentially benefiting from companies that adapt successfully. These companies can reduce their emissions, avoid paying higher carbon taxes and even create new revenue streams by selling carbon credits in ETSs. Those that fail to adapt, may face significantly higher costs.

Van Lanschot Kempen engages with companies to raise awareness about the impact of carbon pricing and encourage them to reduce their emissions. We aim to be a net-zero investor by 2050, by aligning our AuM with a long-term carbon intensity reduction pathway of 7% a year on average, in terms of weighted average carbon intensity. We encourage the companies in which we invest to do the same and to set targets for reducing emissions from their operations and their supply chains.

2 Carbon pricing in the EU - ieefa.org
3 State and Trends on Carbon Pricing, World Bank Group, GHG Emissions Coverage | Carbon Pricing Dashboard

The case for carbon farming

Carbon sequestration is a distinct part of programmes aimed at reducing, pricing, and trading carbon emissions. It can already be done on a large scale in a natural way. Nature-based removal projects, aiming to remove CO_2 from the atmosphere, include afforestation, reforestation, improved agricultural practices, and grassland management. These projects generate nature-based removal credits by storing carbon in soils and vegetation.

There are hundreds of such programmes globally, with North America, the EU and Australia leading the way. Many are now generating prices that might be attractive for long term investors.

Notably, according to the World Bank Group, the prices of carbon that has been naturally sequestered or removed from the atmosphere have increased more strongly in the past year compared to the prices of industrial carbon credits. This may indicate greater interest from and confidence in nature-based solutions.[4]

Regenerative agriculture

Alongside afforestation and reforestation projects, regenerative agriculture stands out as a highly tangible and readily available solution for carbon removal. Studies show that healthy soil, supported by regenerative techniques like cover cropping and no-till farming, can efficiently draw carbon from the atmosphere and sequester it.[5]

Recent research covering 550,000 hectares of US farmland highlights that these benefits can also be measured, reported on and verified on a large scale. Different techniques contribute to reducing emissions in various ways. Cover cropping showed a significant reduction over a short period of time, while no till farming had a smaller reduction initially, but greater long-term benefits.[6]

Carbon farming in practice

The Van Lanschot Kempen SDG Farmland strategy promotes regenerative farming to improve soil fertility, water management and biodiversity. This approach increases yields while reducing environmental impact. It also helps to mitigate global warming by increasing the capacity of soil to store carbon. This impact can be measured and managed with the help of soil sampling, biogeochemical computer models, and direct soil carbon measurements.[7]

As these methods develop, they can encourage more farmers to adopt regenerative practices, but also enhance the financial returns from their land through direct carbon pricing.

From Spain to Australia

The SDG Farmland Strategy includes several projects in its portfolio that actively work on carbon sequestration and its measurement. One example is an orange plantation in Huelva, Spain, where a private carbon sequestration project expects to capture an increasing amount of CO_2 per hectare over the next decade through cover cropping.

The strategy also collaborates with Landlife, an organisation dedicated to reforestation, carbon storage and biodiversity restoration, on, amongst others, a project in northern Spain involving the gradual projected reforestation of 500 to 4,000 hectares degraded land.

4 State and Trends in Carbon Pricing, World Bank Group
5 Soil-Based Carbon Sequestration | MIT Climate Portal
6 'Solutions and insights for agricultural monitoring, reporting, and verification from three consecutive issuances of soil carbon credits' - Journal of Environmental management, 2024
7 Eric Potash et al, Measure-and-remeasure as an economically feasible approach to crediting soil organic carbon at scale, Environmental Research Letters (2025). DOI: 10.1088/1748-9326/ada16c

In Australia, similar projects are being developed on a larger scale. The ACCU programme aims to achieve net-zero emissions by 2050. It covers mandatory ETS and voluntary carbon sequestration pricing. In 2024, soil carbon projects drove a surge in registered initiatives.[8]

The Farmland strategy is involved in several Australian planting projects, particularly in areas unsuitable for agriculture but suitable for carbon absorption. Long-term biodiversity projects are also underway. Carbon pricing schemes can provide additional income for farmers who are willing to manage their land in a way that protects and promotes biodiversity.

8 CEFC report on Australian Carbon Market, February 2025

Looking ahead: carbon farming as a strategic lever

To meet or come close to the Paris Agreements in 2050, carbon pricing is essential. Nature-based carbon storage programmes, such as afforestation and regenerative agriculture, are expanding rapidly and attracting investor interest due to their potential ability to deliver long term stable yields, alongside environmental benefits.

For the time being, we have a relatively conservative view of the income that 'carbon farming' adds to the farmland strategy's results. Achieving this additional return is not an end in itself: we invest in nature and biodiversity primarily because it creates a more vital, resilient, and robust system for our agricultural production. With growing interest from investors and financiers, and the projected growth of the carbon value chain, broader opportunities for additional returns are expected.

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