Carbon Credits: Frequently Asked Questions

What is a carbon credit?

A carbon credit will likely be a defined term in your contract. In general, a carbon credit is a transferable instrument issued and recorded by an entity or registry to represent an emission reduction or sequestration of one (1) metric ton of CO_2, or an equivalent amount of other greenhouse gases (GHGs). However, any farming practice undertaken by a farmer with a perceived impact on climate change could be quantified in this manner.

Do I have to participate in carbon markets?

No. Currently, all these markets are voluntary.

Are carbon markets regulated?

Currently, there is limited government involvement in climate markets. There is also no universal set of standards that govern the measuring, reporting, and verification of carbon credits. However, there are numerous proposals for regulatory and voluntary federal programs.

Who has ownership of the carbon credits generated on my farm?

Your contract determines who retains ownership of the carbon credits generated on your farm. Some markets may allow you to retain ownership and therefore control of decisions on pricing and timing of the sale of your credits. Others may retain ownership of those credits once generated and therefore control the pricing and timing of sale decisions.

Who am I signing a contract with?

Currently, you would be signing a contract with private entities. Some may be agribusinesses with their own program, but there are a variety of players in these marketplaces. These companies are called aggregators; they sell credits in private transactions. It is important to know who you are contracting with as carbon credit contracts tend to be a long-term business relationship.

Who is buying carbon credits?

There are many types of private companies interested in purchasing carbon credits: technology companies, agribusiness, oil and gas companies, etc. The list is extensive because many companies make commitments to lowering climate impact and will consider various methods, including carbon credits, to achieve such commitments.

What may be required in order to sign a contract?

Many markets may require years of historical data about the management of your farm. This may include, but would not be limited to, the following: crop rotation, tillage practices, cover cropping, precision field data, and soil sampling records.

What agricultural practices are being included in carbon contracts?

Agricultural practices that qualify vary greatly based on what buyer or aggregator you work with. Common practices include: no-till/reduced tillage, cover crops, nitrogen fertilizer management, crop rotation diversification, manure management and many others.

Can past practices qualify?

This depends on the buyer or aggregator you are contracting with. Some entities are issuing payments/credits for past practices, some companies will allow you to contract previous practices without providing credits/payments for them, and other companies are not allowing a grower to contract for practices previously utilized on-farm.

What are current prices for carbon credits?

Farmers may receive a variety of prices based on the practices they agree to implement, the amount of emissions abated or carbon sequestered, and who they contract with. Prices received can vary significantly. For example, current carbon prices are anywhere from around $3-$20 per credit. Limited trading has occurred in this new market, as such it is unclear whether prices may change dramatically in the future and how potential changes may influence farmers' contracts.

What contract provisions should I look for when looking at a carbon contract?

There are several contract provisions you should review before signing an agreement. Some provisions, specifically related to carbon contracts, are mentioned below. You should always have your contract reviewed by legal counsel familiar with your operations before you sign any documents.

- Termination – Understand how you can get out of the contract if needed. Also, can the other party terminate the agreement and under what conditions.
- Pricing – How much are you going to get paid for your practices and what method of payment will be utilized. Some contracts may contain a price, while others will require the grower to take proactive steps to lock in a price at a time in the future. It is important to understand how you will be paid, that is, in what form of currency. In addition, some contracts are performance based, meaning by how much greenhouse gas you mitigate or sequester. Others will be practice based, meaning you will be paid a set amount per acre based on the farming practices adopted.
    - Timing of payments is also something to be aware of. Will you be paid in a lump sum or will there be a payment schedule?

- Data Privacy – It is important to know who owns the data that will be compiled. This provision should outline how your data will be used, how it may be shared with other entities, and who owns the data at the end of the agreement.
- Force Majeure – A force majeure clause is a provision that can be invoked when a party cannot perform under the contract due to circumstances beyond their control. For example, if there is a flood or similar event. Although this may not appear in the contract provided, your attorney should advise if one would be appropriate and explain to you how it may be invoked in the carbon contract setting.
- Exclusivity – In many agreements, you can only sell your carbon credits to one entity. That is, you are not allowed to sell the credits received from one practice to one entity, and then your credits from another practice to another entity. Be aware of this provision when you enter agreements or if you are already contracted.
- Stacking programs – Are you able to participate in the private market and other federal programs such as EQIP or other cost-share opportunities?
- Permanence requirement – This is a provision appearing in some agreements and essentially requires that the carbon credit be maintained for very long periods, e.g., 100 years or more. This time period likely exceeds the number of years a grower will be paid under the contract. It is an open question as to how that will be enforced but it is important to be aware of it and ask questions.

Are there any other considerations in selling carbon credits?

U.S. agriculture remains a net emitter of greenhouse gases. It is unclear what the long-term implications of selling credits for sequestering carbon while emitting other gases may be. New policies at the state or federal level may dramatically impact the value of carbon credits or the impact of future regulations on farms who have sold these. Carbon is extremely difficult to measure and varies across fields, throughout the soil profile, and even fluctuates over time due to factors outside of farmers control like weather or soil biota. Farmers should fully consider all of these implications, their ability to manage and fulfill these contracts, along with any potential financial benefits.

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