You're thinking about selling carbon credits – what next?

Scott Fleming and **Dustin Sawyer** for *Progressive Forage*

AT A GLANCE

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Carbon sequestration, carbon capture, carbon farming – call it what you will, it all comes down to one concept: We can use plants to convert CO_2 from the atmosphere into physical forms of carbon that are locked away in the soil. There is a lot of talk about this right now, so if you're a farmer and you know about this concept and want to get involved, what are the next steps?

When looking into carbon markets, jargon reigns and confusion ensues almost immediately. The internet isn't much help, either. A search for "carbon sequestration" yields thousands of hits from companies that want to sell something or educational institutions that try to explain it. While the concept is really easy to understand, the monetization of carbon sequestration introduces a surprising amount of complexity. But there is a lot of excitement here, and with excitement comes financial opportunity. So what is the best way to navigate the carbon capture landscape? The first step is to learn the jargon.

Perhaps the most important word to understand in the world of carbon sequestration is, well, sequestration. Merriam-Webster defines sequester as "to set apart" and offers up synonyms of "seclude" and "withdraw." Oxford Languages defines it in a more legal sense: "take legal possession of (assets) until a debt has been paid or other claims have been met." Using these definitions as a guide, it's logical to say that in the carbon trading world, carbon sequestration means to isolate some amount of carbon, and thereby remove it from the carbon cycle for a set period of time. Sidebar: If you haven't yet, now is a great time to look up images of the carbon cycle. It's one of those instances where an image is way more effective than an explanation.

The devil is in the details, and that last little bit of the definition of sequestration, "a set period of time," is the detail to focus on next. This is where the term "permanence" comes in. As the word suggests, permanence refers to how permanent the sequestration is. A truly effective carbon sequestration practice should remove carbon from the carbon cycle forever. However, that cannot reasonably be achieved, so most contracts will specify a permanence period. It's important to pay close attention to this permanence period and really understand what is required. While permanence traditionally refers to the amount of time that the carbon is sequestered, it's often used instead for the duration for which the carbon-storing practice (no-till, cover crops, etc. …) will be carried out. This is a very important distinction because it implies that the person who enters into the contract is going to be the person who has control over the land practices for the entire duration of the contract. While that may be realistic for a five-year term, most carbon sequestration contracts are for 25 years or longer. Be sure to understand how permanence is being used in a contract and how that may impact future landholders.

"Additionality" is a term that's of particular importance in the

Continued on page 24

Illustration by Kristen Phillips.

You're thinking about selling carbon credits – what next? cont'd from page 23

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agricultural industry. One of the sad truths about carbon sequestration is that those who have been implementing the best practices all along get shafted. Additionality is to blame. Imagine the scenario where a big bucks corporation, we'll call them McDollaSigns, wants to purchase some carbon credits. McDollaSigns will go to a carbon credit broker and write a check with the explicit expectation that the check will fund the creation of some new carbon storage. This is additionality. The money that is spent must initiate some additional carbon storage. If the carbon storage was already happening, or was going to happen anyway, then the money McDollaSigns spent didn't change anything, and was thus a sham.

Once familiar with the industry-specific terminology, it is time to evaluate the companies that would like to buy the carbon. It is important to note the companies you market your carbon through are likely not the end purchaser of the carbon. These companies aggregate many growers' carbon together to make it more appealing to the end "consumer" of carbon. An analogy that all growers will likely understand is that of a grain elevator. Just as a grower raises a grain crop and markets that to the local elevator, that elevator is likely not the end user of the grain. That elevator likely ships the grain out. They may ship that grain to the end user, or there may be additional transactions until the grain finally reaches the end user.

To sell the carbon sequestered on your farm, you will need to partner with someone specializing in aggregating and marketing carbon credits. Just as in grain transactions, every person who handles the carbon credit takes their profit along the way, so the profit for the farmer diminishes along the way. Also, much like marketing grain, being closer to the end user likely results in a higher payment for the commodity.

The choices abound in the carbon aggregation arena, and there are many companies that growers are already familiar with in this market. There are also a great number of carbon purchasing specialists. Care should be taken when deciding who to partner with, and when evaluating a carbon partner, some key factors rise to the top.

When determining the best path into the carbon market, the primary topic will likely be eligibility. Eligibility is based on what practices are currently employed on the farm and what management practices will be added. Again, additionality is the key factor that determines eligibility. If a grower is already doing most of the carbon smart farming practices, it will limit eligibility in many programs. For those who already have several practices in place, some programs do not require additionality. These are programs that will "pay you back" for practices that have occurred in the past.

Another area to consider is the contract term. Contracts can be as short as one year, with some lasting more than 25 years. When choosing a contract, evaluate the likelihood of remaining in the contract for the full term. Many things could cause a default on the contract. They could be as complex as land being developed or sold or as simple as tilling the soil to fix a problem or meet a management demand. Remember, development isn't always urban encroachment on agricultural land. This could be a major expansion of the dairy that takes land out of production. This could be a son or daughter coming back to the farm and building a new home. Regardless of the reason for termination, be sure to explore contract lengths and penalties surrounding termination.

Data collection is an important piece of every carbon program and takes on many forms. It could be documenting practices in an app you may already be using. It could mean downloading a new app and tracking operations in that app. Many times, there is additional tracking and data uploading that must take place on a computer. A Wisconsin grower who recently enrolled in a carbon program said, "To be honest, I wanted to throw my laptop through the window a few times. There are still a few glitches in the software on their end as well. Now that it is set up, I am assuming it should be easier going forward." Obviously, recordkeeping and data management will be core to any carbon program, but some may require a higher level of office work and detail management than others.

Carbon farming is just like farming any other commodity. Growers are looking to achieve the highest return on investment for every acre. But money shouldn't be the only thing to look at when it comes to entering into a carbon contract. It actually may be the last thing to look at. All of the items discussed prior will impact an operation far more than the value of a couple of bushels of soybeans per year. Some of the key financial components to consider are guaranteed price, additional compensation and repayment penalties. Many companies pay a certain sum per practice, per acre while other companies will use pre- and post-practice laboratory tests to establish a payment rate. Some companies will pay a guaranteed rate for each unit of carbon sequestered, while others will pay a "makeup payment" of sorts if the carbon is sold for more than initial projections. Be sure to understand the contract and any fine print associated with the payment rate before entering into any contract.

The more a person reads about carbon markets, the more confusing it all seems. Industry jargon, combined with a long and confusing string of middlemen, obscure the process and make it seem overwhelming to the person who is ultimately storing the carbon. Take heart, though, that this is a new and evolving industry. There is a strong interest on the side of the carbon credit purchasers, and industry groups want this to be an easy process. The next few years should yield a significant increase in usability and transparency.

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