Trading Carbon Credits

How does that work?

by Troy Smith

Surely, by now, you’ve heard about carbon credits. You’ve heard about the concept of capturing and storing (sequestering) carbon in the soil. It’s something all forms of plant life do — remove carbon dioxide from the atmosphere and sequester carbon in soil organic matter. And there has been a lot of talk about how the sequestered carbon represents a potential cash crop for farmers and ranchers.

But among many owners of agricultural lands, the response has been, “Sure. Show me the money.”

Now, some producers are seeing the money and putting it in the bank. Darrel Buschkoetter has received two checks, over the last six months, through the Farmers Union (NFU) program markets carbon credits through the Chicago Climate Exchange (CCX). North America’s only greenhouse gas registry, reduction and trading system, the CCX is where carbon credits are bought and sold much like commodities are traded on other exchanges.

Buyers include environmentally conscious individuals, organizations and companies. Among the biggest players are utilities and manufacturers feeling pressure to reduce fossil fuel emissions, including carbon dioxide. For example, an electric utility company might buy carbon credits (also called carbon offsets) to offset or neutralize some portion of emissions from coal-fired generators. Speculators buy too, anticipating an increase in the value of carbon credits.

The CCX requires that projects involving conservation tillage practices (includes cropland under continuous hay production); previously cropped land that is converted to permanent stands of grass (can include acreage enrolled in CRP since January 1999); and native rangeland managed under prescribed grazing.

Generally, acreage in much of the eastern and central portions of the U.S. is eligible for projects involving conservation tillage cropland or cropland converted to grass. The issue of carbon credits is based on the average expected carbon accumulation rates and strategies for pasture rotation and seasonal use. Under this type of project, contracts also are for a period of five years.

The CCX requires that projects involving less than 10,000 metric tons of carbon per year register through an offset aggregator. So farmers and ranchers typically participate through one of nearly 100 CCX-approved aggregators such as NFU. According to North Dakota Farmers Union program specialist Liz Mathern, an aggregator registers producers and enrolls their eligible acreage into pools representing marketable carbon credit contracts.

Mathern says the size of a pool isn’t based on total acreage per se. They must represent a capacity for sequestering that required minimum of 10,000 metric tons annually, but NFU pools typically represent several hundred thousand tons. During each production year covered in a contract, a database of all included land tracts is submitted to CCX. A portion of the land tracts will be randomly selected for verification by a CCX-approved third-party verification entity. Verifiers use information provided by the aggregator combined with potential site visits to confirm that promised management practices are being implemented.

“All land tracts are subject to initial verification and annually during the term of a contract,” Mathern says. “At this time, however, only 10% of contracted acres are selected each year. Exceptions would include producers enrolling very large tracts of land (more than 10,000 acres), which would receive a site visit the first year, before any payments are made.”

Carbon credits earned by producers contributing to a pool are sold by the aggregator. Individual producers then receive annual payments for their respective shares of the proceeds, less an administrative fee retained by the aggregator. In NFU's case, the “commission” is 10%. However, 20% of tons earned are placed in a carbon bank by the CCX with payment made in a lump sum at the end of a contract. This serves as an incentive for producers to complete all terms of the contract.

The value of carbon credits is determined annually during the term of a contract, so payments will fluctuate, up or down, with market prices. A producer signing
Carbon trading: It doesn’t fit everybody

This carbon trading thing is kind of a hot topic among cattle folk and particularly among those running cattle on the High Plains and western ranges. It was a frequent subject of interest at cattleman’s meetings attended by this writer during the last year or so. That was true even at events where no discussions on that specific topic were planned. Carbon sequestration and the idea of selling carbon credits just kept coming up. If not during a meeting proper, it was talked about in the halls during breaks, over lunch or in the parking lot afterward.

Several things may be fuelling the fire. Producers who have enrolled acreage in conservation tillage carbon sequestration projects have actually been paid for it, as have some producers who converted cropland to permanent stands of grass. They’ve been talking about it. And now, with the development of rangeland projects, western ranchers are wondering if they can tap the carbon market.

It’s likely more producers will sign up for the various types of carbon sequestration projects and benefit. In this writer’s opinion, there are others who probably shouldn’t even try. It’s best left up to the individual producer to decide in which group he or she belongs. Those considering enrollment are well advised to make an informed decision by seeking out more information than is available at the coffee shop.

No doubt, there are enthusiasts that have sold-over the carbon trading concept, usually by making participation in carbon sequestration projects sound too easy. Some proponents may have been overly optimistic about the potential value of carbon credits. On the other hand, critics have called carbon trading a scam, or a phony market based on imaginary money. Some claim signing a carbon credit contract amounts to signing away personal property rights. At the very least, they say, someone is going to tell the landowner how to manage his or her operation.

What follows is not an endorsement or condemnation. Rather, it is observations based on this writer’s limited research. The only advice of value is an admonition to seek out the facts and use common sense.

First of all, remember that the whole notion of trading sequestered carbon grew out of the global warming debate. It is a market-driven mechanism aimed at reducing the effects of so-called greenhouse gases — carbon dioxide in particular. That was made clear whenever terms are broken.”

Several years ago, acid rain concerns spawned a similar cap-and-trade market to address sulfur dioxide emissions. Over time the cost of buying credits, to offset emissions, became high enough to force companies to place scrubbers on smokestacks and replace the highest emission plants with new lower-emission facilities.

Eventually, application of new carbon dioxide emissions-reduction technologies, coupled with development of alternative energy sources, might reduce or eliminate the need to buy carbon credits. For the time being, proponents of carbon trading encourage farmers and ranchers to consider the current opportunity to adopt land management practices that are economically and environmentally sound and get paid for it.

Editor’s Note: For more information about trading carbon credits visit the Chicago Climate Exchange Web site (www.chicagoclimatex.com) or its approved aggregators, including National Farmers Union (carboncredit.ndfu.org).

Carbon trading has been sold as a way for the worst offenders to stave off action to effectively reduce carbon dioxide emissions at their source. That might be true as long as buying of carbon credits is cheaper than implementing emissions reduction mechanisms. If and when those companies eventually find economical ways to reduce carbon dioxide emissions, the market for carbon credits could decline. Perhaps it will go away altogether.

For now, carbon trading may provide an additional income stream to agricultural producers willing and able to participate. But it probably doesn’t fit everybody.

— Troy Smith