

**Top Questions and Answers**  
**Carbon Credit Pilot Project for Nebraska**  
Randy Pryor, Extension Educator  
(Revised May, 2006)

1. Who is running the carbon credit pilot program?

The carbon credit pilot program is being offered and managed by the Chicago Climate Exchange (CCX), a commodity exchange for greenhouse gases. The CCX is the world's first and North America's only voluntary, legally binding rules-based greenhouse gas emission reduction and trading system. The aggregator or organization that serves as the middleman between the CCX and participating producers/landowners, is the Iowa Farm Bureau. Extension in Nebraska is assisting in providing education about carbon.

2. What are the basics of the program?

The Iowa Farm Bureau is contracting with producers/landowners in the Midwestern region and in 63 counties in Nebraska for Pool 3 through June 2006. Land enrolled must be in continuous no-till, ridge-till or strip-till or is in new grass plantings (includes CRP and CREP acres seeding after January 1, 1999). This land is considered to be accumulating "carbon credits" through a process called carbon sequestration. These carbon credits can be leased to potential buyers for a set period of time. Under terms of the contract in this program, the land must remain in continuous no-till, ridge-till, strip-till or grass for a 5-year period -- 2006 through 2010. The Iowa Farm Bureau will aggregate all the credits they have under contract in the pilot project and sell them on the CCX. The price of credits fluctuates daily depending on supply and demand, as with any other commodity exchange. Once the Iowa Farm Bureau sells the credits on the CCX, the Iowa Farm Bureau will send the money to participants in Pool 3, beginning in 2007, with semi-annual payments. Soybeans cannot be planted more than three of the five years.

3. What is a "carbon credit"?

A "carbon credit," or Exchange Soil Offset (XSO), is a market term. Registered companies with the CCX exchange agree to voluntarily reduce CO<sub>2</sub> emissions by 4 percent or more and maintain that commitment through 2010. Some examples include Dupont, Dow, and Ford Motor Company. Some reductions come from company change and other reductions can be from buying a carbon credit from a farmer who is engaging in a practice (such as conservation tillage or grass planting) that removes carbon from the atmosphere on a long-term basis. A carbon credit is normally quantified in terms of "carbon dioxide equivalent (CO<sub>2</sub>e)." A CO<sub>2</sub>e is just a way of converting the different forms of carbon into a common unit -- carbon dioxide. A company cannot purchase more than 50 percent of their reductions from purchased offsets.

4. Do I have to be a Farm Bureau member to sign up? NO

5. Do I need my landlord's approval?

Whoever has functional control of the land and makes day-to day decisions on the farm should sign the contract. Payments are not split between parties by the aggregator. No, the landowner's approval is not necessarily required. The contract is between the Iowa Farm Bureau and either the owner or operator. However, the party that signs the contract is the one responsible for fulfilling the contract.

6. What land is eligible for the pilot program?

To be eligible, the land enrolled in the XSO certification program must be capable of being cropped, that is, the land could be utilized for row crop or small grain production even though it may currently be in a non-grass hay crop. If such lands are farmed with row crops during the pilot project period, such crops need to be produced in a compliant no-till manner. XSOs (carbon credits) will be issued at the rate of 0.5 metric tons CO<sub>2</sub> equivalent per acre per year to farmers who commit to continuous conservation tillage (defined as continuous no-till, strip-till, or ridge-till) on the enrolled land from 2003 through 2006. XSOs will be issued at the rate of 0.75 metric tons CO<sub>2</sub>e for new grass plantings.

7. How about land that was put into grass prior to January 1, 1999?

Cropland that had grass established on it prior to January 1, 1999 is not eligible for the pilot program.

8. For purposes of this pilot program, what is the definition of no-till?

The CCX uses the definitions found in the USDA Natural Resources Conservation Service (NRCS) National Handbook Of Conservation Practices. These definitions are: No-till/Strip-till - Managing the amount, orientation, and distribution of crop and other plant residue on the surface year-round while growing crops in narrow slots or tilled or residue-free strips in soil previously untilled by full width inversion implements; Ridge-till - Managing the amount, orientation, and distribution of crop and other plant residue on the soil surface year-round while growing crops on preformed ridges alternated with furrows protected by crop residue.

Tillage equipment that is definitely classified as a "full width inversion implement" includes:

- Moldboard Plow
- Chisel Plow
- Tandem Disk
- Offset Disk
- Field Cultivator

Equipment that is allowable within the pilot program (includes knifing action field operations):

- No-Till, Strip-Till, And Ridge-Till Planters
- No-Till Drill
- Ridge-Till Cultivator
- Rolling Harrows
- Liquid Manure Injector (See General Guideline Below)
- Anhydrous Ammonia Applicator
- Sub-Soiler/ Ripper With At Least A 24-Inch Shank Spacing

A general guideline is that after the implement has been through the field, there must still be a substantial amount of surface residue present and the soil disturbance must not be full width. If use of the implement would require that a leveling or smoothing activity follow, it would probably result in too much soil disturbance and cannot qualify for the carbon payment program.

9. How much will I get paid?

The Iowa Farm Bureau will sell the aggregated carbon credits on the CCX board at the time of its choosing. The exact amount depends on market conditions at the time of the sale. In April 2006, prices hit a new high of \$4.25 per ton. This means a cropland payment could exceed \$2.00 per acre. Prices can go up or down on a daily basis. The Iowa Farm Bureau retains 10 percent of the selling price as a service fee.

10. When will I get paid?

Pool 3 participants, with eligible land meeting the June 2006 deadline, will be paid twice a year beginning in 2007. You will certify acres each fall to the Iowa Farm Bureau.

11. If I till the ground before the contract is up, do I have to repay the money?

Yes, the field that was tilled is out of the program so you owe the carbon payment plus interest and other costs.

12. How will the CCX or Iowa Farm Bureau verify that I am upholding the terms of the contract?

CCX contracts with local entities to visually verify that land under contract is in conservation tillage or grass. Not all land will be verified every year. In large part, the program relies on self-certification. CCX will rely on your word of honor. Nebraska participants thus far have an outstanding tract record.

13. What if a new tenant comes along in the next five years?

The agreement can be transferred to the new tenant, if the new tenant agrees. If the new tenant will not sign on, and the farm goes out of compliance due to tillage, the original carbon contract holder is responsible for fulfilling the terms of the contract and subject to the same penalty terms described in question number 11.

14. Payments thus far have been \$1.00-\$2.00 per acre. What if some other exchange comes along in the next five years that will pay me more?

For the period covered by this contract, the credits will be registered and traded through the CCX. New members are joining the CCX on a regular basis and it is hoped that new buyers will participate in the CCX market.

15. Why sign now? I'll wait for more money from someone else.

There may never be a "someone" else unless farmers in the Corn Belt region prove now they can be a player in this new emerging market, tied to reducing greenhouse gas emissions. Also, it is highly unlikely that future programs will grant credits for activities in previous years that have not been registered or verified.

16. What if I need to smooth over a gully or do some tillage on end rows?

Although specifically not stated on the contract, spot checkers allow a de minimus amount (up to 5 percent) of conservation-related corrective spot tillage per field. Twenty percent (20%) of the farm carbon offset credits are held to the final contract year which allows additional flexibility. If end rows or terrace bottoms are routinely tilled, those areas should be subtracted from the enrolled areas and exempted from the contract. The key is communication with David Miller at the Iowa Farm Bureau.

## **Additional Questions about Enrolling Land in the Carbon Payment Program Compiled by Extension Educator Randy Pryor, May 2006.**

**The following questions were answered by David Miller, Iowa Farm Bureau:**

17. Can WRP acres be enrolled in this program if seeded after January 1, 1999?

The grass portion of WRP is eligible. We have not been taking areas that stay under water all year long, (permanent pool) but the perimeter areas that are only seasonally wet and have been converted to grass are eligible as new grass plantings.

18. Can I enroll continuous ridge plant acres that I run a roto-tiller machine in front of the planter?

If the roto-tiller is full width, then no. If it is just tilling the top of the ridge in a strip (say 8 - 10 inches wide) then it would be okay.

19. Can I enroll land which I have used the fallow master tillage tool?

Vertical knives are allowed in operations where you do not need to follow with full soil inversion tillage the width of the implement. A fallow master tool slices the soil horizontally. There would need to be further information given to David Miller, Iowa Farm Bureau about this tool, such as some before and after digital photos and then get a ruling from the offset committee before these acres could be enrolled.

20. Can I enroll cropland that has been converted to grass after January 1, 1999 that was not CRP or CREP?

Conversion of crop ground to grass, whether or not in the CRP/CREP program is eligible for the new grass plantings. It is suggested when enrolling to have some evidence of establishment date (seed receipts, FSA acreage report, etc.)

21. Is a riparian buffer strip eligible?

The riparian buffer strips are eligible if seeded after January 1, 1999. Assuming they are predominantly grass (with shrub or tree plantings) the Iowa Farm Bureau has been enrolling them as new grass acres. The trees and shrubs clearly add more carbon sequestration, but, in general, it has not been worth the effort to quantify the extra carbon due to the trees or shrubs, so Iowa Farm Bureau has been treating those acres as new grass plantings. Please note on the enrollment worksheet that the land has trees or shrubs planted there.

22. If I enrolled last year in Pool 2 do I need to re-enroll now using the yellow sheet extension mailed?

No. Pool 3 is only for brand new enrollments between now and June 30, 2006. Further information will be mailed to the 255 contract holders in Nebraska in Pool 2 later in 2006 directly from the Iowa Farm Bureau. The intent is to offer Pool 2 participants an opportunity to simply "extend" their contracts until 2010. For those that want to adjust acreage down, they will just need to let us know what acres to remove. For those that want to add new land, they can just add it when this year's certification sheets are sent out.

23. Who is eligible to buy carbon credits in agriculture in the United States through the Chicago Climate Exchange as of May 2006?

Delta Institute (Illinois Conservation Tillage) - Contact Abby Corso at ph: 312-554-0900

Environmental Credit Corp. (Ag. Methane) - Contact Scott Subler at 814-235-1623

First Capitol Risk Management (Ag. Methane/Conservation Tillage) - Contact Will Babler at 1-800-884-8290

Iowa Farm Bureau (Conservation Tillage) - Contact Dave Miller at 515-225-5430

As of May 2006, the Iowa Farm Bureau is the only active organization in Nebraska aggregating carbon credits for continuous no-till, strip till and ridge-plant cropland and newer grass seedings.

North Dakota Farmers Union (Conservation Tillage in ND) Contact Dale Enerson at 701-252-2341

24. Twenty percent of the carbon offsets remain in a reserve account by the Iowa Farm Bureau. Can you explain in further detail how the 20% reserve works?

In the following example there are 1500 acres enrolled and 750 XSO's are offered to sell each year of the life of the five year contract. So let's say things go well for 2006, 2007, 2008 but in 2009 a tenancy changes on cash rented land and the new tenant disks up 150 acres. No sales of 2009 XSO's have occurred yet. How does the Iowa Farm Bureau modify the contract in 2009?

**Answer:** Each year we hold back 20% of the credits in the reserve (in this case equivalent to the credits from 150 acres, but it is actually the credits, not the acres, that are held in reserve). If credits were sold from 2006, 2007 and 2008, there would be 450 credits in reserve. If in 2009, 150 acres were tilled (no longer in compliance), then it would destroy 225 credits (3 years times 150 acres times 0.5 credit per acre). Assuming the balance of the farm (1,350 acres) would stay in compliance, there would be 540 credits available for sale in 2009 (1,350 acres times 0.5 credits per acre times 80%) with 135 credits for the reserve account. Our normal mode of operation would be to recover the destroyed credits from the current years allocation (540 minus the 225), thus leaving 315 credits to be sold in 2009. That way we are maintaining the reserve. If the number of credits destroyed exceeds the number of credits available for sale in the current year, then we tap into the reserve account and reduce the amount held in the reserve. If that is not enough, then we bill back the shortfall to the producer.

25. Who can answer a more specific question that I have before signing on?

Contact: Dave Miller, Iowa Farm Bureau, phone (515) 225-5431, or e-mail [damiller@ifbf.org](mailto:damiller@ifbf.org) Additional applications for participation can be obtained on the Saline County Extension website at [www.saline.unl.edu](http://www.saline.unl.edu). General questions in Nebraska: Randy Pryor, Extension in Saline County, phone (402) 821-2151, or e-mail [rpryor@unlnotes.unl.edu](mailto:rpryor@unlnotes.unl.edu)

26. Is a rolling stalk chopper operation allowed in front of a ridge or no-till planter?

Yes

27. If I sign a contract, what is the policy on release of information?

It is the policy of Iowa Farm Bureau carbon offsets program to not give out names of those in the program unless they have given permission to do so. For media contacts the aggregator, David Miller with the Iowa Farm Bureau indicated he certainly would not ask someone to talk to the media unless they were comfortable in doing so.

28. What happens if I sign the contract as a tenant and the land is sold during the life of the carbon payment agreement?

Functionally, the carbon contract should not have any different affect on a land sale than would any other contract, such as a CRP or CSP contract. Obviously, at current prices, the cost of breaking the carbon contract is much less than for a CRP or CSP contract. The Iowa Farm Bureau can transfer the contract to the new owner if they accept it. If the new owner does not accept the carbon contract as part of the purchase of the land, then the responsibility for any land that would go out of compliance is on the original contract signer. If the new owner accepts the transfer of the contract, then he becomes responsible for compliance. To date, David Miller reports they have done several land transfers (voluntary and estates) and have not seen where the carbon contract posed any particular problems or complications. In one case, the land was sold for development and the original contract holder simply bought back any credits that had been sold. In other cases, the new owners simply picked up the contracts.

29. To sign up in Pool 3 by June 30, 2006 can I use either 2005 or 2006 FSA certification?

Yes.

30. If I am already in Pool 2 and want to add more eligible land, can I enroll new eligible land now (by June 30, 2006?)

Yes.

31. Can I enroll less acres on a field if I expect conservation work or other tillage work to be done during the life of the carbon contract?

Yes. In the crop program, only enroll land that will be in continuous no-till.

**32. I am receiving payment on 0.5 XSO's per acre. What does that stand for?**

The "X" refers to "Exchange" which in turn connects these trading units to the Chicago Climate Exchange. The "S" refers to "Soil". The "O" refers to "Offsets," i.e. offsets against emissions of greenhouse gases measured in CO<sub>2</sub> equivalents. Other contracts include "M" for "Methane" and "F" for "Forests." The Chicago Climate Exchange, in effect, serves as the broker, connecting buyers of XMOs, XSOs and XFOs with the sellers. The Iowa Farm Bureau serves as the "aggregator" bringing the sellers together to offer these offsets to CCX who in turn will sell them to the various members of CCX.