

# Frequently Asked Questions (FAQs) to accompany CFAD's USDA National Climate Bank Concept Note

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## 1. What is a USDA National “Climate Bank” and what does it support?

A USDA National Climate Bank (Climate Bank) will help to **finance, incentivize, and account for the climate-related contributions of U.S. agriculture and forestry**, including from livestock management (e.g., grazing, enteric fermentation, and manure management). The Climate Bank should factor in not only climate-related benefits resulting from carbon sequestration, but also those resulting from reductions in all greenhouse gases (GHGs) that are generated from the full array of U.S. food and agricultural production practices – conventional, organic, row crops, specialty crops, range land, animal agriculture, and forestry. It should also ensure the participation of socially and economically disadvantaged, small, and beginning farmers.

## 2. Where will funding for a Climate Bank come from?

The Climate Bank could be **established using the Commodity Credit Corporation (CCC) or other authority designated to USDA**. While it is possible Congress could direct USDA to alternate funding sources, many policymakers view funding through the CCC to be the most likely given the flexible uses of that program in the past, including to fund conservation. It remains to be seen whether a Climate Bank funded through the CCC would face political or legal challenges.

## 3. What is the time horizon for the Climate Bank? Will it exist in perpetuity?

USDA support of climate markets under the Bank should exist only for the time needed to provide liquidity in voluntary GHG markets in the land sector and provide the overall GHG outcomes needed by the U.S. land sector to make scientifically-supported contributions to the global problem of climate change. Some tools should be transitory (e.g., support for private GHG market development) while others may be longer term (e.g., GHG-related investments via existing programs such as the Regional Conservation Partnership Program/RCPP or support for growers not well-served by voluntary markets).

## 4. What is the primary difference between a Climate Bank and existing conservation programs that encourage practices that lead to beneficial environmental outcomes, including soil carbon sequestration?

A Climate Bank could **work with existing conservation programs** such as the Regional Conservation Partnership Program (RCPP) and its Alternative Funding Arrangement which allows public-private partnerships to reward agricultural producers for performing management that leads to certain outcomes, such as retaining carbon in the soil. **It also includes new financing mechanisms to assist more agricultural and forestry managers in GHG market participation.** It brings a focus, sense of

urgency, and alternative funding arrangements to allow greater public-private partnerships that will reward producers for their management actions that deliver GHG outcomes.

## 5. How does it encourage GHG market participation?

A Climate Bank should help farmers, ranchers, and foresters **enter into private, voluntary, third-party contracts to generate carbon credits by providing up-front capital to help managers and operators cover risks and costs of new management systems.** As a condition of this funding, USDA should set minimum criteria to only purchase credits generated in approved markets that follow established market standards. These requirements would also be required of certified aggregators who could aggregate smaller farms into larger projects. USDA would be absolved of having to perform monitoring, reporting, and verification (MRV) activities and could focus on supporting existing standards-based markets, as long as results are tracked through independent registries.

## 6. How can USDA ensure that on-farm and forestry practices lead to verified outcomes?

**Existing standard-setting bodies** (e.g., Climate Action Reserve, VCS/Verra, Gold Standard, and the American Carbon Registry.) **approve and certify protocols for the quantification and verification of outcomes-based credits that are generated by eligible conservation practices.** New technologies that can reduce high verification and certification costs in voluntary carbon markets are being pilot tested. Leveraging public funds to pay for credits generated during pilot testing of these technologies could help to bridge any gaps between approval of these technologies in approved protocols and their demonstration in valid projects. USDA should continue to use NRCS Conservation Innovation Grants (CIG) and other programs to finance technology and protocol development for standard setting bodies.

## 7. How could a Climate Bank ensure the profits from the sale of carbon credits are returned to the farmers who generate them?

The best way for a Climate Bank to ensure the profits from the sale of carbon credits are returned to farmers, ranchers, and foresters is to **support producer participation in existing standards-based markets that incentivize beneficial environmental outcomes.** USDA investments in research to increase the certainty of soil carbon quantification methods (see question 9 below) will also increase the value of resulting credits. Support for public-private partnerships via a USDA Climate Bank could help to de-risk investments, create market liquidity, and scale impacts.

## 8. Has the science regarding the measurement of soil carbon developed sufficiently to permit the calculation of credits based on the amount of carbon stored?

Scientific advances are making rapid progress, and the development of markets and mechanisms such as the Climate Bank will **further drive these advances as interest in this area encourages research funding.** Because markets discount GHG credits to account for uncertainty, this research may enable more robust payments for soil carbon in voluntary markets as quantification certainty increases. In addition, USDA investments in science and modeling is likely needed on nitrous oxide and enteric fermentation technologies and practice standards.

**9. How can a USDA National Climate Bank support working lands innovators (early adopters) who have delivered environmental outcomes but have limited access to private carbon markets due to additionality rules?**

There are currently no federal policies or programs dedicated to preventing losses of existing soil carbon stocks. Since losses of existing stocks compound the climate problem by adding to atmospheric GHG concentrations, and since losses are harder and more expensive to return to soil than by preserving those stocks in the first place, an appropriate federal role may be to protect existing soil carbon stocks. Additionally, since carbon markets only pay for verified outcomes that have been shown to be 'additional' to what would have happened without an intervention, many 'early adopters' would only be able to generate credits from practices above and beyond what they already employ, limiting their eligibility in these markets.

A Climate Bank could **make payments to protect high-value carbon stocks** (e.g., highly biodiverse grasslands) and also **pay early adopters whose actions have increased their own carbon stocks** but whose early actions cannot be paid for in carbon markets. This would create a signal to agriculture and forestry innovators that early action will be rewarded. However, rewards for early action may be best served by traditional conservation programs rather than with carbon markets and/or a USDA climate bank.

**10. What about unintended consequences such as tilling land in order to sequester "additional" carbon?**

**Private voluntary market standards expressly forbid these types of practices and disqualify landowners and operators from receiving credits if they engage in them.** If a landowner or operator is found to have deliberately degraded their land in order to increase soil carbon sequestration potential (and thus the number of credits they might generate), that would make them ineligible to participate in a market, potentially invalidate their contracts, and subject them to financial penalties.

**11. Much of U.S. farmland is rented. How can farm operators participate if they do not own the land they farm?**

Ranchers who graze on public lands cannot participate in voluntary markets since they do not own the underlying ecosystem service assets. Yet they may be achieving beneficial outcomes and improving public lands while mitigating climate change. A Climate Bank could reward ranchers who help improve soil carbon sequestration on public lands by allowing them to follow approved protocols and generate credits sold only to the Climate Bank, which are then retired. **The Bank could also pay farmers and ranchers who cannot get their landowners to contractually assign them asset ownership, which would allow them to participate in voluntary markets, assuming they are following approved protocols and generate credits sold only to the Bank, which are then retired.** Both of these scenarios would require the proper quantification, monitoring, third-party verification and potentially certification of a market standard to generate credits for purchase by the Bank. Many carbon markets are following the example of Conservation Reserve Program (CRP) contracts and requesting both tenant and landowner sign the contract for the term of the agreement.

## 12. **How can small, beginning, BIPOC, and socially or economically disadvantaged farmers, ranchers, and foresters participate in voluntary carbon markets?**

There is concern that the current price of voluntary carbon market credits is too low for smaller producers to participate. However, the recent swell in demand for carbon credits resulting from widespread corporate pledges to reduce carbon emissions will continue to drive up the price of credits and make GHG reductions (including from soil carbon sequestration) more profitable for producers who are currently priced out of voluntary markets.

**USDA should reduce barriers to entry by investing in technical assistance and by providing co-financing opportunities to farmers, rancher, and foresters to adopt new management practices that generate carbon credits, provide additional streams of revenue, and maintain the independence and diversity of U.S. working lands.** USDA also may want to follow the example of current conservation programs and create different tranches of opportunities from different sectors of agriculture and forestry, including socially and economically disadvantaged farmers, ranchers, and foresters, so no one type or size of operation or production system dominates. USDA can also stimulate action in different regions and with different types of agricultural and forestry systems.

## 13. **Aren't carbon credits in the land sector controversial?**

The scientific community is clear on the need for every sector to reduce and remove emissions from the atmosphere in order to mitigate the climate crisis. **Offsetting emissions through the trade of verified and certified carbon credits provides additional incentives for companies to reduce their emissions by lowering costs as they transition away from fossil fuels and encourages investment in emissions reduction and removal practices and technologies.** In order for these markets to work, carbon credits must be shown to represent real emissions reductions in order to maintain the integrity of credits to buyers and sellers. Further, the Climate Bank would not create credits to allow regulated GHG polluters to offset their emissions. Credits developed as a result of a climate bank would help companies go above and beyond regulated mandates.

U.S. working lands' tremendous potential for GHG emissions reductions and increased soil carbon sequestration make it a natural source for carbon credit generation. There is also potential for a number of co-benefits – increased producer innovation, adaptation, and resilience; water quality and quantity improvements; air quality improvements; and enhanced wildlife habitat. **While offsets are not the only mechanism for achieving global emissions reductions, they should be part of a broader strategy to curb GHG levels in the near- to medium-term and usher in a just transition to a net-zero, and eventually carbon negative, economy.**