

April 27, 2021

William Hohenstein
Director, USDA Office of Energy and Environmental Policy
355 E Street SW - 10-145B
Washington, DC 20024

RE: Notice of Request for Public Comment on the Executive Order on Tackling the Climate Crisis at Home and Abroad [Docket Number: USDA–2021–0003]

Dear Mr. Hohenstein:

We are submitting the attached recommendations to USDA to recommend near-term federal policies to drive economy-wide and equitable decarbonization of the U.S. economy. Our comments are in response to USDA’s Notice of Request for Public Comment on the Executive Order on Tackling the Climate Crisis at Home and Abroad. They are specifically related to the design and operation of a carbon bank, which is under consideration by USDA. They were developed by the Carbon Bank Taskforce as a part of the Decarbonization Dialogue.

The Decarbonization Dialogue, facilitated by Keystone Policy Center and Great Plains Institute, reflects nine months of dialogue among stakeholders with diverse interests. The Dialogue was designed to develop bipartisan, impactful recommendations to inform debate around climate and decarbonization action in the power, transportation, and agriculture sectors.

Specifically related to Docket Number USDA-2021-003, our recommendations address the Climate-Smart Agriculture and Forestry Questions. A carbon bank administered by USDA can leverage existing expertise from Agencies such as the purchasing skills of the Agricultural Marketing Service while developing a new program to pay farmers, ranchers and foresters for outcomes that reduce atmospheric concentrations of heat-trapping gases. The bank could set the precedent for paying for additional environmental benefits, such as water quality, that could be rewarded through other environmental markets. A carbon bank would also support and expand voluntary and compliance carbon markets by, among other things, clarifying what constitutes an environmental credit from agricultural practices and facilitating price discovery to provide better transparency of the revenue potential for producers.

The Carbon Bank Taskforce of the Decarbonization Dialogue appreciates the opportunity to provide these recommendations and we look forward to working with USDA to encourage the development of policies and programs that encourage the development of markets for farmers, ranchers, and foresters to implement practices that result in reductions in atmospheric concentrations of heat-trapping gases.

Sincerely,

Trey Cooke

Policy Director, Rural
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Carbon Bank Dialogue Recommendations

April 20, 2021

For more than 100 years, USDA has encouraged the implementation of conservation practices. With climate change, we are now faced with one of humanity's largest challenges. The role agriculture can play in reducing net greenhouse gas (GHG) emissions, storing carbon, and adapting to climate change has never been clearer. Farmers, foresters, and ranchers (collectively referred to herein as "producers") can adopt practices to reduce atmospheric GHG emissions; build healthier, more resilient soils; use water more efficiently; and implement energy efficiency or renewable energy projects in their operations or on their land. More resilient agricultural systems are key to feeding the U.S. and the world as temperatures increase and precipitation becomes more variable.

According to a recent report by the Sand County Foundation, the median income of farms has been negative for four of the last five years. At the same time, farmer debt is at its highest level since 1980. To address these challenges, between 46 and 84 percent of farmers receive additional income from off-farm sources such as construction, transportation, and sales jobs.¹

Through the development of a carbon bank, USDA can supplement producer income by incentivizing producer participation in environmental markets that reward them for decreasing the impacts of climate change through reductions in emissions of methane, carbon dioxide, and nitrous oxide as well as sequester incremental carbon in soil and root systems. The carbon bank should accomplish two goals. First, it should stimulate the demand for producers to implement and be paid for outcomes that reduce atmospheric concentrations of heat-trapping gases and provide additional environmental benefits that could be rewarded through other environmental markets. Second, the carbon bank should ensure the environmental integrity and effectiveness of the practices implemented.

Experts with decades of experience in environmental markets and government programs developed the recommendations below. These recommendations are a starting point to a thoughtful dialogue and engagement in the development of the carbon bank. The Carbon Bank Dialogue members are willing and eager to continue to work with and advise USDA and its partners in the development and execution of a carbon bank. With that framing in mind, we would like USDA to consider the following key criteria in design of the carbon bank:

- **Flexibility of rules:** Any rules that are developed for the carbon bank need to allow the bank to adapt to market conditions and learn from its operation. Overly strict program design can limit the ability for modification of bank operations. This may unnecessarily lock in approaches that no longer work and/or limit the ability of the bank to scale.

¹ Parkhurst, R., Higgins, P., Male, T., McAleese, K., Peterson, H., Norriss, J. 2021.

Advancing Innovative Finance Options for Improved Agricultural Water Quality. Environmental Policy Innovation Center, Washington DC & Sand County Foundation, Madison, Wisconsin.

- **Guidance around the definition of a “credit”:** Markets work best when credits are commoditized and fungible. There are more than 20 different offset protocols for agricultural practices in the United States. While each protocol produces credits in terms of 1 incremental tonne, in CO₂-equivalents, that is reduced or captured and retained for a specific term, the specifics of *how* these credits are calculated can differ. In addition, many of the protocols require the tonne of CO₂ remain out of the atmosphere for different periods of time. USDA should provide guidance around acceptable methods to calculate tonnes of CO₂, while also ensuring that innovation – which has driven these markets – isn’t dampened. To that end, USDA should create standards that create the minimum environmental integrity for practices and credits.
- **Ownership:** Ownership of credits can be complicated in modern production systems. All parties who have the potential claim to the credits should be considered in the design of any system. This includes the landowner, operator, and project developer. Ultimately, sufficient value must be provided to the producer to encourage them to implement and maintain climate beneficial practices. USDA policies and financial incentives must distribute benefits and risks equitably and incorporate active measures to increase participation and resilience of producers, including BIPOC, LGBTQ, socially disadvantaged, small, or traditionally underserved producers.

In addition, the owners of the credits should have the right to sell their credits to whomever they choose and whatever price they choose. This could be to USDA or private companies. Finally, only one entity should own the credits at any time; no one should be allowed to offer the same credit for sale through multiple marketplaces at the same time.

- **Consultation:** Producers and the organizations that represent them should be consulted throughout the development and implementation of a carbon bank. BIPOC, LGBTQ, socially disadvantaged, small, or traditionally underserved producers, in particular, should be invited to participate in market design to ensure that it provides equitable access to capital. Once the bank is designed, USDA should provide targeted technical and legal support, aggregation mechanisms, and assistance to overcome barriers to participation faced by BIPOC, LGBTQ, socially disadvantaged, small, or traditionally underserved producers.
- **Facilitate true price discovery:** The carbon bank should facilitate true price discovery in the emerging producer carbon credit market. The most effective way for the government to purchase credits is through a blind, single price reverse auction (often referred to as a “Dutch Auction”) where both suppliers and credit buyers can submit multiple bids and settlement occurs starting with matching the lowest priced bids from sellers with the corresponding buyers. The Government could participate in this reverse auction, offering to purchase different credit volumes at different price points, thereby establishing a floor price, while coincidentally facilitating price discovery (which occurs over multiple auction events, over time). Buyers and sellers would be matched until all available credits are sold. This approach would facilitate true price discovery while also giving smaller suppliers and large buyers comparable market power.
- **Clarity of claims:** USDA needs to provide clarity on the environmental claims that parties can make related to practices. Like clear ownership, no two parties should be able to make claim to the same

underlying carbon removal or emission reduction at any time. Experience gained from the renewable energy market can be leveraged for the environmental claims from agriculture.^{2, 3}

- **Crediting of historic practices:** Producers who demonstrated leadership by implementing practices that sequester carbon, reduce nitrogen losses to the atmosphere and water systems, and eliminate methane emissions should be rewarded for their outcomes. While ongoing benefits can effectively be credited and incentivized through markets, few early actors can access markets due to additionality rules. USDA should recognize or incentivize early actors through existing USDA programs, tax credits, or subsidy-focused programs rather than markets.
- **Purchasing of credits:** The government entity implementing the carbon bank and purchasing the credits is as important as the process. The entity should have experience with commodity markets. USDA's Agricultural Marketing Service, for example, has extensive experience in procurement and their experience should be leveraged in the operation of the bank and the purchase of GHG benefits.

² Center for Resource Solutions (2010) Best Practices in Public Claims for Solar Photovoltaic Systems [accessed March 18, 2021] <https://www.green-e.org/docs/energy/Solar%20FAQ%20and%20Claims.pdf>

³ US EPA (2017) Guide to Making Claims About Your Solar Power Use. EPA Green Power Partnership [accessed March 18, 2021] <https://www.epa.gov/sites/production/files/2017-09/documents/gpp-guidelines-for-making-solar-claims.pdf>