



## 3 Questions to Ask Before Looking at a Carbon Program

Featuring Dr. Chad Hart

Professor of Agricultural Economics, Iowa State University

### DJ May:

Welcome to the Decode 6 Podcast, where we take your questions about carbon and ecosystem services and match them to the experts with the answers. I'm your host, DJ May. And today, we're talking about carbon programs. Before you get anywhere near signing a contract for a carbon program, there are some things you should think about. Instead, what are the three questions you should ask yourself before you even look into specific carbon programs? Joining me today to answer that question is Dr. Chad Hart, a professor of economics at Iowa State University. Chad's research has examined the interaction between agricultural commitments within the World Trade Organization. He's also studied policies and programs of World Trade Organization members, crop insurance, international trade, federal agricultural policy, and crop marketing. Lately, Chad's been spending a lot of time thinking about carbon markets and programs in Iowa. So Chad, welcome to the show.

Chad Hart:

It's my pleasure to be with you.

DJ May:

Excellent. Well, we'll jump right in. So what questions should you ask yourself before you even look into a carbon or ecosystem service market?

Chad Hart:

Well, I figure the first one, and probably the biggest one is, had you been already thinking down along these lines? When we're talking about the farmer's decision here in joining a carbon market, a lot of it has to do with, I'm going to say this is taking on a side gig to your main job. The idea is the carbon markets are offering some additional revenue, but not as much as the traditional crops that they're going to grow. And so we need to look at, how does this fit within the farm plan? And so that's why I say, have farmers already thought about this? Were they already thinking about cover crops or reduced tillage? The practices that many of our carbon contributors are looking for right now from farmers. So I think that's the biggest deal here. If you're already thinking about some of the conservation practices you might adopt, then carbon markets possibly make sense for you as we're looking over the next year or two.

DJ May:

Perfect. Well, when you start thinking about making these changes, how far along do I need to be? Have I just heard about cover crops, or when should I start thinking about maybe jumping into a program?

Chad Hart:

Well, I think it's more than just I've heard about. It's more that you've done some research on it. You're thinking about you've got a 40 off to the side that you can do an experiment on, that you're looking at possibly testing something as we're looking here. So it's beyond just thinking about it, and it's more that you've made some moves to begin to do that process or at least try to do that process. Because I think in this case, this is not a decision where I want folks just to, "Hey, I heard about this and I dove right in." No, you do need to take a little bit more time and effort in it because it is

more of a longer term decision, because you're signing into a contract, which is legally binding. And so we want to make sure that we're understanding all the ramifications of that move. So it is beyond just knowing about it and more, have you done some homework on the practices that you're willing to adopt?

DJ May:

Perfect. Well, let's talk... I'll play devil's advocate. What if I just jumped right in, didn't think about it, and signed one of these contracts? Well, what could go wrong?

Chad Hart:

Well, I think it can work out. But it's one of these deals of, then you face the challenges of, okay, let's say that practice really doesn't fit or work on your farm. What are you into then? And like I say, this goes back to the contract. What is in there that allows you to make maybe modifications to the practices you would look at? Or if worst comes to worst, how do you get out of that contract? And each contract's going to be different. We're still in what I call the Wild West of carbon markets.

And what I mean by that is we don't really have one giant carbon market. What we've got are a bunch of individual transactions that are being made. And so every farmer's decision, every farmer's contract's going to be a little different than their neighbors right now. It depends on who you've signed up with, what you've signed up for, how long have you signed up for. And all those factors are going to influence how well that contract works for you, or if it doesn't work out for you, how difficult or painful might it be to get out of that contract.

DJ May:

Yeah. Well, let's talk about length of time. So how long are most of these? And what does that mean for what you're doing on your farm?

Chad Hart:

Oh, well, like I say, in this case, you got to shop around. What we find is that some of these are only annual contracts, meaning they last a year, and then you can get out. Most of them though, are in the 5 to 10 year range. Because when we're thinking about these carbon practices, this is not something you can just do in one year and magically you've saved all this carbon. For the most part, we're talking about practices that over the long run are capturing carbon from the air and putting it back into the soil. So it takes time and effort for that to occur. So most of these opportunities, like I say, are in that 5 to 10 year range. So this is not something that you can just magically turn on and off. No, you're signing up for a long-term commitment on the farm.

DJ May:

All right. Yeah. Scary for folks with commitment issues.

Chad Hart:

Well, it can also be difficult when we think about a lot of our farmers in the Midwest who rent land. And so oftentimes you're renting that on an annual basis, and that's what makes this connection with carbon markets tenuous because you need to line up your rental arrangement with your carbon market potential out there as well. I can't sign up for a 10-year carbon contract on something that on land, I may not have two years from now. And so that's another issue, if you will, that farmers and landlords need to get together on this and go, "Okay. If the tenant's going to sign up for this

carbon opportunity, the landlord needs to be involved and on board as well," so that they can guarantee they can carry out the terms of that contract.

DJ May:

Yeah. Yeah. Now, we might be getting into the weeds a little bit, but is there any setup there where these programs make sure that you have your landlord on board or could you get burned from that?

Chad Hart:

No, it's possible to get burned. It's possible that you could get into some of these and not have the landlord. But I think that's something that many of the carbon traders are learning as well, figuring out who really needs to be at the table when we're signing this contract or setting it up with the farmer. Because many farmers own some land, and then rent additional land. Okay. Sitting down with the farmer, what fields are you going to apply this practice on? Is it your own land? Is it your rented land? If it's your rented land, we'd like to talk to the landlord. If it's your own land, nope. Just talking to you does the job. And so I think, like I say, since we're in the Wild West again, we're still learning how to build these contracts to where they work for both sides: for the farmers in implementing the practices, and for the traders in making sure that they can move those carbon markets up the chain to market to other consumers.

DJ May:

Yeah. And it sounds like you need to loop in a lot of different people to make this work.

Chad Hart:

I believe you do. Because when you're looking at... Like I say, we're making changes to the practices on the farm. And those changes have agronomic impacts, they have financial impacts. And so I look at this as a farmer needs to fall back on his team of experts that he or she is utilizing to help them optimize the farm. So it's talking with your agronomist, your seed salesman, your crop insurance agent, your ag lender, your family, your landlords or your tenants, and working with all of those folks to make sure that this is the best opportunity in trying to leverage the carbon opportunities within the farm. And so this is, like I say, not something that just one person should make up their mind and go, "Yep, we're going to do this." Nope, spend some time, do some homework, talk to your valued team members out there to figure out if this is the best move that the farm can make.

DJ May:

Great. I love that. Do you have any final thoughts about anything you should ask yourself before you look into these programs or markets?

Chad Hart:

Well, like I say, I think it's good to ask questions. Like I say, we're at the very beginnings of these markets. So it's a real exciting time, but it's also a time that, yeah, it does raise some concern. So it's one of these deals of I want people to investigate, what are the potential opportunities they have there? Like I say, it may make sense if you've got that piece of land that is off by itself, well, here's a time where you can run a little bit of an experiment. You can dabble into carbon markets without inducting your full entire farming operation into it. Build into it, much like we do when we're trying other changes in practices. For example, when you're trying a new seed variety or you're trying some new fertilizer or something like that, you may only do it on a small piece of your farming operation to see how well it works. I'm going to

argue carbon markets should be approached the same way. Let's try it on a little bit here. And if it works really well, then start to expand it over the rest of the farm.

DJ May:

Yeah. What a great learning opportunity. You can troubleshoot, figure out what goes well.

Chad Hart:

It is, and I think that's the deal here when we're looking here. We're trying to create a new market where one really hasn't existed before. In economics, we talk about things called externalities, which are basically things that happen because a market transaction has occurred. But these things weren't expected or necessarily part of the market transaction, and I think carbon has been one of those deals. When we're looking here, we've always raised crops, we create crop markets, we're used to pricing that. Carbon is something that has been unpriced all this time throughout agriculture, and now we're trying to put a price on that as well. And so it is a new opportunity.

DJ May:

Excellent. Well, just to summarize the three questions you should ask yourself before you look into one of these markets. Were you already thinking about making these changes? How committed are you? And did you talk with your decision-making team?

Chad Hart:

Yep.

DJ May:

Thank you so much, Chad. I really appreciate it.

Chad Hart:

Thank you, DJ. Glad to be of service.

DJ May:

If you want to learn more about carbon programs, check out the show notes. And if you're curious about carbon and ecosystem services and how all of this is fitting together with these markets popping up, come visit us at [decode6.org](http://decode6.org) to learn more.