USDA National Climate Bank – Concept Note

We see a pressing need for USDA to show leadership by creating financial incentives for land management innovation on hundreds of millions of acres of U.S. working lands to curb the effects of climate change. These actions will reduce emissions but also deliver important co-benefits – assist farmers in reducing agricultural risk and improving productivity and profitability and create additional benefits for habitat, water quality, and soil health. USDA has the opportunity to send a strong signal to farmers, ranchers, and foresters; the supply chain; and the American public that our food system is committing to climate-smart agriculture and forging a path toward net zero emissions**. Strong USDA investment and thought leadership will enable U.S. agriculture to harness the research, technical assistance, infrastructure, and market-based solutions needed to meet the challenge of a changing climate head on.** This work must be implemented in close partnership with the private sector.

CFAD is also releasing recommendations on research – *CFAD USDA Research and Science Recommendations.* Sustainable, climate-smart agriculture requires a suite of policies and a systems approach in order to bring lasting management changes. Science and research must underpin investments in climate-smart agriculture and food systems. **CFAD is committed to working with USDA and Congress as they develop policy and programs that work for producers, the environment, and society.**

About CFAD

AGree's Climate, Food, and Agriculture Dialogue includes farmers, ranchers, and foresters; environmental NGOs; supply chain companies; and former government officials. We share a common view that **climate change demands ambitious and durable federal policy solutions that are commensurate with the urgency and scale of the problem**. We see the U.S. food and agriculture system as a crucial source of solutions to climate change. These solutions must provide transparency and promote affordability while distributing costs and benefits in a way that promotes equity and value to land managers. The scientific consensus that the climate is changing at an increasingly rapid pace is incontrovertible. The timeframe for taking meaningful action to avoid catastrophic impacts is running short. Our guiding principles for federal policy on climate change and food systems can be viewed here.

Introduction

The USDA National Climate Bank (the Bank)[1] should be created to finance a **voluntary, non-regulatory initiative to bolster carbon sequestration and greenhouse gas (GHG) mitigation by U.S. agriculture and forestry.** The Bank should purchase or co-finance climate outcomes or "carbon credits" sourced from U.S. working lands through reverse auctions, loans, grants, or other mechanisms. The Bank should be a **catalyst to boost nascent GHG markets involving U.S. agriculture and forestry.**

[1] The Climate Bank would be established using the Commodity Credit Corporation (CCC) or other authority designated to USDA. CFAD leaves the question of authority to USDA to determine.

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Why a Climate Bank?

We use the term "Climate Bank" to communicate that it 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). It should include all GHGs and food- and agriculture-related strategies, not just those related to carbon sequestration.

We recommend that policymakers and stakeholders think of the Climate Bank as the **financing needed to support a suite of policy tools that would enable large scale transformation across the diverse U.S. agricultural landscape in response to 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).

To scale the adoption of climate-smart agriculture practices we need to leverage private investment. Climate Bank funding to producers to develop GHG credits can co-finance climate outcomes with the support of private sector project developers. These efforts will recognize and leverage existing third-party standards.[2]

The science continues to demonstrate the need for land sector solutions to limit global warming. The Intergovernmental Panel on Climate Change's *2019 Special Report on Climate Change and Land* states that the land-sector is critical to prevent more than a 1.5 C degree warming of the planet over preindustrial levels.[3] Recent studies indicate that the U.S. land sector can be a significant source of carbon dioxide sequestration and GHG reductions.[4] A Climate Bank, in partnership with farmers, ranchers, and foresters and the private sector, can accelerate adoption of climate-smart practices on U.S. working lands.

The Bank should provide financial support to a broad array of agricultural and forestry managers to invest in climate-friendly and/or regenerative agriculture outcomes – operations that may not desire to or be able to participate in climate market mechanisms. **The Bank should also support enabling conditions and complement existing policies such as technical assistance and voluntary market infrastructure to ensure that practices can be carried out on the ground at scale.** Bolstering technical assistance and infrastructure support are vital to climate-smart agriculture.

This concept note outlines the purpose, implementation guidance, and design and implementation options for designing a successful and broadly supported "Climate Bank" that leverages private sector actions and resources. Given the urgency of the climate crisis and the role that U.S. working lands can play, we urge USDA to expeditiously consider these elements when establishing a Climate Bank and/or other mechanisms to support climate-smart agriculture. We outline a suite of options below that should

[2] Examples of third-party standards include Climate Action Reserve (CAR), VCS/Verra, Gold Standard, and the American Carbon Registry (ACR).
[3] Intergovernmental Panel on Climate Change, Special Report on Climate Change and Land, updated January 2020.
[4] Bronson, W. et. al., "Natural Climate Solutions." Proceedings of the National Academy of Sciences. October 31, 2017. "Natural climate solutions can provide 37% of cost-effective CO2 mitigation needed through 2030 for a >66% chance of holding warming to below 2 °C."

be explored and piloted to vet their efficacy in terms of GHG outcomes and producer and landowner participation in keeping with the Bank's purpose.

Overview

CFAD sees a need for an integrated public-private vision for incentivizing climate-friendly agriculture practices and clearly delineating public and private roles. The private sector has played a leading role in advancing GHG and ecosystem service markets and investing in platforms, technologies, and protocols for measuring, reporting, verifying, and trading credits. We recognize this significant groundwork and urge USDA to find ways to build upon private market development efforts; reduce barriers to participation for farmers, ranchers, and foresters; and provide confidence in agricultural practices and their verification.

KEY QUESTIONS

1. How can USDA and the private sector ensure certainty around the science with high quality quantification of outcomes (i.e., permanence and additionality, monitoring, reporting, and verification (MRV)) and the long-term durability of climate outcomes/environmental benefits?
2. When tracking GHG outcomes, how can transaction costs be kept to a minimum? How can USDA make use of reporting systems and processes that farmers and ranchers already use (e.g., MRV for crop insurance)?
3. How can early adopters and innovators be recognized and rewarded for their contributions to climate mitigation?
4. How can USDA ensure all farmers, ranchers, and foresters have access to available programs, particularly tenant farmers, specialty crop growers, small and beginning farmers, and socially or economically disadvantaged farmers? This includes access to the technical assistance and conservation program finance needed to participate.
5. How can USDA best structure a Bank/related programs to encompass complementary financial mechanisms that will be successful within current budgetary constraints?

PURPOSE

1. Invest in farm-level climate-smart agriculture innovation and resilience; ensure farmers and ranchers can participate and benefit.
2. Pay for measured/quantified and verified climate outcomes that help build scale for climate solutions across U.S. agriculture.
3. Involve farmers and ranchers of all sizes, production systems, land ownership or management types, and backgrounds, ensuring equitable access.
4. Help to catalyze GHG and ecosystem markets that leverage private investment and adequately reward farmers and ranchers.
5. Build significant contributions to the United States' Nationally Determined Contributions.

IMPLEMENTATION GUIDANCE

1. Create a framework at USDA that supports high quality voluntary GHG outcomes and markets, is not commodity market distorting, and is trade compliant (e.g., WTO green box).
2. Support inclusion of all working lands – conventional, organic, row crops, specialty crops, range land, animal agriculture, and forestry.
3. Support socially and economically disadvantaged, small, and beginning farmers to overcome barriers to participation.
4. Ensure incentives and payments commensurate to the climate benefits provided are driven to the farmer via voluntary contracts and price discovery and price transparency.
5. Create tailored policies and programs that are fit for the purpose and include "sunsetting" mechanisms. For example, 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.
6. Ensure the USDA Climate Bank is complementary to other climate and ecosystem services efforts, including conservation programs, and environmental, tax and regulatory policies.

ADDRESSING CONCERNS

Carbon markets, while not new in the land sector, are not without controversy. Some view them as buying "indulgences" and serving as an "out" for polluters (paying others to reduce emissions rather than reducing one's own emissions). There is a risk that the promised GHG benefit will not materialize or that it will not be additional or permanent. There is also uncertain science around carbon sequestration in soils and our ability to understand residence times. Other criticisms are that the opportunities for producers and landowners presented by carbon markets would in practice be unavailable to low-income, minority, and other disadvantaged communities and that a singular focus on carbon markets undermines regenerative agricultural practices. Some argue with respect to carbon markets generally that emission credit prices are simply too low to drive down emissions.

While these concerns are very real, **CFAD asserts that many of the challenges can be overcome with the appropriate design and careful implementation of a Climate Bank by USDA**. The goal is to address these concerns head on as options for a Climate Bank are considered. It is imperative that USDA leverage both public and private investment in working lands-based GHG reduction activities. Through USDA's involvement and oversight, a wide range of farmers, ranchers, and foresters will have the opportunity to participate in the market, learning alongside private market developers, to bring the U.S. land sector successfully into these markets, in a credible, equitable, and verifiable way. The role of agriculture and working lands as contributors to climate change is too significant to dismiss the use of market forces, such as carbon markets, to help reverse climate trends.

Design and Implementation Options

As discussed above, USDA has an important role to play in helping co-finance private sector efforts and leveraging non-federal resources to assist more agricultural producers in market participation. While USDA support could take a number of different forms, three models for consideration – which are not mutually exclusive – are outlined below. **We recommend that USDA develop different policy pathways to test these options with various types of agricultural and forestry systems.**

1. **Payments for Agricultural Producers**—USDA could offer a variety of different *supplemental payments* (e.g., $/ton) directly to agricultural producers based on expected climate outcomes. This option could support the development of carbon credit markets and also incentivize producers who may not desire to participate in or be suitable for current markets.
    - **Option 1A – Support for growers not well-suited for voluntary markets:** USDA could support climate outcomes created by individual landowners who may face significant barriers to enter into voluntary market mechanisms. Small farmers, for example, may not be able to build sufficient climate attributes to attract third-party, non-federal project developers to aggregate or create credits. Tenant farmers may also face difficulty securing approval or clarity from landowners to participate in formal markets. USDA may instead use the Bank or existing programs to pay for new management practices most expected to produce climate outcomes. *This option could support early adopters (e.g., of soil carbon sequestration) as additionality rules may preclude them from private markets.*
    - **Option 1B – Producer payments to support voluntary market development**[5]**:** USDA could make temporary payments contingent on third party project development contracts intended to create a voluntary market attribute or credit. USDA could establish minimum criteria needed for a third party contract, including: assumption of risks, established obligations, third party standards used for either an offset market or corporate supply chain initiatives (i.e., insetting). The payment would help the farm enter into new market-based contracts and provide up-front capital to help the farms cover risks and costs of new management. Project developers could factor this payment into project design.
        - USDA would NOT own or procure any GHG assets, but rather bolster an emerging market via non-federal buyers. A USDA payment is a way to ensure farms see a minimum value and provide liquidity into a nascent market.
        - USDA would need to determine whether this is a one-time or multi-year payment (it is unlikely that USDA would need to pay for the life of the third-party contract). This is only a means of jump starting a market; buyers and sellers would need to make payments for the duration of the contract, which is typical for voluntary market arrangements.

[5] **How would this work?** 1) USDA pays a farmer based on a contract with a non-federal project developer. 2) Project developer factors the payment into the financing of the project. 3) Project developer receives revenue based on sale of credit to another party (not USDA). This is likely cheaper for USDA if, for example, they spend $10/ton to **co-finance a project** versus Option #2 (procurement) where it would likely have to pay $15-20/ton to purchase a credit. Ultimately, this only works if the combined payments from USDA and the project developer are sufficient for the landowner/manager to invest in new practices. In most cases, this co-financing will be a higher payment rate than what typical government payment programs would provide at scale.

- The contract should outline MRV requirements. It can be tied to a certified aggregator if the farm wishes to use that assistance. Either way, USDA is absolved of having to perform MRV and can focus on supporting the system and tracking results through private registries and standards.
- USDA minimum payments provide producers certainty that they will realize some value without waiting for a voluntary market buyer or market prices to reach a certain threshold. Project developers could negotiate with farms on how to share revenue and costs and would take on the risk of meeting third party standards and finding buyers of the credits.

For either option above, USDA might not only rely on the CCC alone, but could also leverage the Regional Conservation Partnership Program and its Alternative Funding Arrangement which allows public-private partnerships to reward agricultural producers for performing management that leads to certain outcomes.

2. **Procurement of Carbon Credits**—USDA could *purchase carbon credits* that result from projects that meet established third party standards and certifications as reviewed/assessed in the USDA framework.[6] This may be the most direct means to jumpstart voluntary carbon markets from both the supply and demand side. Further, it could give validity and assurances for third-party standards, while at the same time allowing the private sector to take on the risk with producers to identify the most valid and practical standards.
    - USDA may decide to buy carbon credits and retire them.
    - USDA may have to limit participation or set caps on tons procurred based on budgetary concerns and limiting market volatility.
    - USDA also may want to create different tranches of requests for proposals from different sectors of agriculture, including socially and economically disadvantaged farmers and ranchers, so one type or size of farms or production system does not dominate. USDA can also stimulate action in different regions and with different types of agricultural and forestry systems.

3. **Co-financing of Carbon Credits (financial backstop)**—There are likely a few creative financing tools USDA can deploy to minimize risk to non-federal partners and help build a credible supply of carbon credit projects with producers and landowners.These options could work together with a procurement strategy (Option 2); however, similar to Option 1B, they may also allow USDA a lower budget impact if project developers and non-federal buyers pick up more of the costs as co-financers and repay the debt if successful.
    - **Option 3A – Buyer of Last Resort:** USDA sets a price guarantee (price floor) for farms and project developers that will be paid if no other buyer is found (e.g., “buyer-of-last-resort"),

[6] USDA should purchase carbon credits that result from projects associated with a “recognized and credibly governed standard-setting body that provides transparent and robust processes for registration, validation, monitoring, verification, methodology assessment and approval, and unit transaction and retirement tracking” (from Mobilizing Voluntary Carbon Markets to Drive Climate Action: Recommendations, EDF, updated March 2021). USDA should create a price signal (e.g., a price floor) to bolster current prices rather than compete with buyers in existing markets. Third party standards would apply.

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contingent on the project meeting certified third-party standards, as reviewed/assessed in the USDA framework.

- **Option 3B – Loan & Bond Guarantees:** Similarly, USDA could offer loan or bond guarantees to project developers to help share the risk that projects will find williing buyers and therefore ensure that project developers have the up-front capital to begin work with landowners and producers (e.g., the Rural Forest Markets Act).

Conclusion

USDA should consider the suite of options outlined above (and others, as appropriate) to maximize opportunities for innovative climate outcomes, share risk with non-federal partners, ensure producers are rewarded for their initiative and buyers are assured of the validity of their offset purchase, and create a bridge between a nascent supply of projects and potential buyers. **The federal government paying landowners, operators, and producers for outcomes is not mutually exclusive with building a voluntary market system of credits – both are possible under a Climate Bank financing strategy to create a meaningful contribution from the U.S. land sector.** Climate-focused use of existing financing authorities, including pilot trials, will help to test approaches and provide opportunity for education, analysis, stakeholder input, and refinement.

ADDITIONAL CONSIDERATIONS

- **Technical Assistance** – None of this will be possible without targeted technical assistance that helps farmers and ranchers plan their GHG mitigation and adaptation efforts and skillfully implement those plans. CFAD is working on recommendations on technical assistance, including funding for non-federal partners that support climate-smart agriculture and broader conservation outcomes. This is a big-ticket item and a critical role for USDA to play.
- **Other Federal Agencies** – USDA should coordinate with other federal agencies including the Environmental Protection Agency (USEPA), Department of the Interior, the Department of Energy, Department of Transportation, and the Department of the Treasury to leverage expertise and optimize inter-agency coordination.
- **Potential NEPA Mitigation Requirement** – If the Biden administration requires NEPA determinations to account for GHG impacts (as well as other additional environmental impacts) and any increased GHG impacts must be 'offset', a Climate Bank could help federal agencies comply with established NEPA mitigation requirements.
- **Nationally Determined Contributions** – In any scenario in which USDA helps create climate outcomes and promotes voluntary market credits, USDA, via coordination with the USEPA and U.S. State Department, should collect and account for information related to outcomes in the land sector stemming from USDA policy and the voluntary markets, including credits or other attributes which are developed from generally accepted third-party standards. The latter is important to validate the emerging voluntary markets and provide a more ambitious Nationally Determined Contribution (NDC) to the Paris Agreement and future NDCs.