Ontario Federation of Agriculture

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You've got Carbon Credit Questions? We've got Carbon Credit Answers.

The concept of greenhouse gas offset credits (or just carbon credits) has been around for a while now, ever since the signing of the Kyoto Protocol in 1997. This agreement committed 192 industrialised countries to meeting specific, legally binding greenhouse gas (GHG) emissions reduction targets.

Recognising the significant challenge of reaching these commitments, the Kyoto Protocol introduced a flexible mechanism for trading emissions reductions. This allows regulated industries who cannot meet their emissions reduction targets to purchase their required reductions from those that can - this 'offsetting' of emissions became the foundation for the carbon credit system. While this idea has been with us for some time, in practice there remains some uncertainty around what they are, how they are created, who can create them, and what they're worth.

If you are interested in carbon trading but don't know where to start, OFA has pulled together some introductory documents that can provide some initial background on carbon credits to help you navigate what can be a complex space and identify the possible market opportunities.

Greenhouse gas offset toolkit
This Greenhouse Gas Offset Toolkit from Environment and Climate Change Canada (ECCC) provides introductory information and resources related to carbon markets, the elements and requirements of offset systems and considerations when developing offset projects.

Carbon Offsets for Farmers
This report from the Smart Prosperity Institute and Co-operators provides a comprehensive assessment of the opportunities available across carbon offset systems to help farmers navigate the complex and sometimes confusing world of carbon markets.

Carbon Credit Generation – should you sign that contract?

Agricultural operations are increasingly seen as part of the solution to climate change. As effective managers of the carbon and nitrogen cycles, farmers are in a unique position to generate carbon offset credits and provide greenhouse gas reduction opportunities through carbon sequestration, avoidance, and destruction.

Being a carbon credit generator often involves entering into legal contracts with companies that market credits – especially if those credits are being used to satisfy a regulated industries legal obligations to reduce GHG emissions

If you have been approached by a carbon credit marketer and would like to know what you should consider before signing a contract, we have pulled together some useful information and questions to ask before signing that contract.

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Below is a brief summary of what farmers should consider before signing a carbon credit contract, based on multiple authoritative sources:

Contract Terms & Legal Review

- Understand the length of commitment, including any post-contract "practice continuance" clauses tying practices and potentially land titles well beyond your active farming years.
- Check for penalties or clawbacks if you exit early or fail to meet obligations (e.g., tilling a no-till field).
- Look for restrictive covenants, liens, or other land-use limits that could affect property rights and future sales.
- Contract clauses to watch:
  - Amendments: Contracts may allow developers to unilaterally change terms—some may even cancel the agreement if you object.
  - Stacking prohibitions: investigate contract limitations from participating in other government funding or cost-share programs.
  - Liability and insurance: Contracts should indicate who carries liability coverage for various activities related to carbon credit generation.
- Legal review: Have an agricultural contract lawyer review for indemnity clauses that could leave you financially responsible for unforeseen issues.
- Where is the carbon credit protocol (i.e. the rules) registered? Is it recognized in Canada or in other jurisdictions outside Canada?
- Can the proponent provide references to ongoing or completed carbon credit projects for you to contact?

Payment Structure & Economics

Income generated from creating and selling carbon credits will largely depend on the market in which you are selling credits. The *voluntary market* tends to be more volatile on prices per credit but often provides more flexibility with the rules around credit generation. The *compliance-based market* tends to provide more stable and predictable prices per credit but is often more rigid and requires more verification when creating carbon credits.

- Contracts may pay per ton of carbon, per acre, or a hybrid - understand exactly how payments are calculated.
- Translate carbon payments into dollars per acre to compare with traditional returns.
- Be sure to ask about current vs future price fluctuation risks.
- Some providers offer sign-up bonuses or front-loaded payments, however, be aware not to let that mask low long-term payments.

Additionality & Eligibility

The concept of 'additionality' can often be difficult to understand. Carbon credits are generated from certain practices that are known to reduce emissions, but only if those emissions are go beyond what would be considered 'business-as-usual'. What is considered 'business-as-usual' for a certain GHG reducing activity is often detailed in the protocol for the carbon credit creation. If the practice is considered 'additional', then an industry or site baseline is often set to provide a reference by which 'additional' reductions can be measured.

- Typically, only *new* greenhouse gas reductions tend to qualify for carbon credit generation: practices or activities already in place (e.g. existing no-till) may not earn credits.
- Programs may offer backpayments for prior years - this varies by provider and tend to require comprehensive records of activities as verification of past practices.

Measurement, Reporting, & Verification (MRV)

Before credits can be marketed, they will need to be verified by a third party. This ensures that credits are real, and that there has actually been a reduction in greenhouse gases compared to the baseline.

- Find out how, how frequently and by whom practices will be verified via:
  - Third-party audits,
  - Soil sampling costs,
  - On-site inspections, or
  - Remote sensing or modeling
- Clarify who pays for verification or testing.
- Verify that methods used to verify are transparent and stable and that there are no unilateral methodology changes allowed.
- Consider your administrative burden to comply with the carbon credit protocol such as managing documentation, updates, and data uploads.

Permanence & Reversibility

Different carbon credit generating activities will have different definitions around permanence. Carbon sequestration activities, where there is a risk of reversal (e.g. having to till a no-till field and potentially release stored carbon), will have more rules around what is considered a permanent GHG reduction. For activities that avoid or destroy GHG emissions, the concerns for reversals will be much less.

- Soil-stored carbon can be easily lost (e.g., through tillage or drought). Contracts should address reversibility risk and provide a clear process for how reversals will be handled.
- Contracts should outline who bears loss risk - wildfire, drought, pests - and whether buffer pools or insurance are in place.
- Understand liability for carbon losses and any hold-backs or insurance funds.

Exit & Flexibility

- Some contracts may be difficult to exit, depending on the credit generating activity, and how permanence is defined in the protocol, you may be locking your operation in for years or decades. Scrutinize early termination, transferability, land sale implications, and developer transfer rights.
- Ask about early-exit provisions, penalties, and whether you can re-enter other programs.
- Can you switch to a different qualifying practice if something fails? Contracts vary where some pay per practice, while others per weight of GHG sequestered, avoided, or destroyed

Data Ownership & Transparency

- Contracts often require detailed farm data reporting for measurement and verification of GHG reductions. Understand what information will be collected, how data will be handled, transmitted, and housed, and who owns it.
- Assess the administrative burden and whether it fits with your record-keeping systems.

Market & Buyer Integrity

- Confirm what entity buys your credits and their quality standards - especially amid concerns about double-accounting or greenwashing.
- Canadian carbon markets are still emerging - many recommend piloting carbon credit generating activities on a portion of your land or waiting for more developed markets.
- No universal regulation exists; rely on verified, independent registries.

By addressing these key areas - legal terms, financial structure, measurement, market integrity, and strategic flexibility - you'll be better positioned to assess whether a carbon contract delivers real value, not just promise.