

# COMMON QUESTIONS RELATED TO FOREST CARBON CREDIT PROGRAMS

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*Growing trees to larger sizes increases carbon storage.*

There is now a “carbon market” in the forestry sector. In general terms, landowners can be paid for managing their forests to increase the carbon benefits that are provided. Often this includes reducing timber harvest levels in order to increase the carbon that is stored in the forest. This additional carbon may be sold as credits in the market to help offset carbon emissions from the buyers’ activities.

The carbon market is somewhat new and rapidly changing. There are many different carbon programs, and they vary significantly. Most of the carbon programs available to Tennessee landowners are part of the voluntary carbon market, which means there are no laws or regulations that standardize the programs. The market is very volatile with programs are changing in response to buyers’ and sellers’ concerns.

Because of the new opportunities for forest landowners provided by forest carbon programs, many forest landowners have questions. We encourage interested landowners to ask questions, so that they can be comfortable with decisions that will affect their future forest income and possibly the ability to manage their woodlands. Perhaps the most crucial question is, “Is this the right decision for my land and my family?” This is very personal, somewhat complicated, and includes considerations such as:

- Do you ever intend to sell timber? If not, then selling carbon credits is an option that could provide an income stream.
- Do you have timber that is nearing the point of sale? If so, you may generate higher income through selling timber than through selling carbon credits.
- Is your property located in a region that has favorable timber markets? If not, then selling carbon credits may be desirable.
- Do you plan to develop your forest land (for example housing), or sell the land in the foreseeable future? If so, then a carbon program may not be advised due to restrictions and penalties.

Here we list several additional questions; however, at this point we can only provide tentative answers, given the many options and likelihood of further changes in the carbon market .

Question	Answer
Does the University of Tennessee recommend joining a carbon program?	We neither recommend joining nor avoiding participation. We do recommend learning about the various options, the program details, and commitments and what it would mean for your property. Ask questions and learn <i>before</i> making any commitment.
Are forest carbon programs run by the federal government?	No. There are some state-based ('compliance market') programs (e.g. in California), which include legal requirements for the participation of buyers and sellers. In Tennessee, almost all the opportunities available to forest landowners are in the voluntary market, which is not controlled by government agencies.
Will I sign a contract?	Yes, but the specifics of the contract will vary by the program and your circumstances. Some contracts have been as short as one year; others extend to 100 years of commitment.
When do I get paid?	Depends. Some carbon brokers offer a set payment schedule (e.g. annually over the commitment period), while others pay periodically when the carbon credits are sold.
Does all my forest land need to be included?	Maybe. Some programs allow owners to exclude acreages either because these acres don't qualify or because portions are reserved for alternative future uses (such as a home site).
Will they conduct an on-site inspection of my property?	Probably. Your woodland will likely undergo an on-site inspection and will be reviewed by satellite. Periodic inspections will occur to assure compliance with the contract.
Will I incur any expenses?	With most of the programs designed for private landowners, there are no expenses other than the opportunity cost of not harvesting timber or harvesting only very lightly.
Can I harvest trees while enrolled in the program?	Maybe, but harvest is usually restricted. For instance, harvesting firewood or a few trees for other personal use is often allowed. But, since the goal of most programs is to increase the amount of carbon (wood) on the land, commercial timber harvesting that lowers the volume is discouraged.
Should I sell some timber first, before enrolling in the program?	Maybe, but the residual board foot volume may need to meet minimum requirements. This varies by program.
Why is the agreement so long term (20, 40, 60 or more years)?	Many buyers of the carbon credits are seeking long-term results.
If I sell my land, can I retain the annual revenue?	You can either retain it (much like mineral rights) or assign the revenue to the new owner, but the contract remains.
How will this affect my heirs?	The revenue can either be assigned or split among the heirs, but the contract remains.
Can I enroll the property in cost-share programs like CSP or EQIP?	Yes, provided the programs do not violate that carbon program's harvest commitments (e.g. cutting trees to create openings for wildlife).
If I sell part of my land, and the new owner voids the contract, am I still responsible for the lost carbon?	Yes. You should strongly consider whether a carbon program is for you if you are considering selling your land or a portion of it prior to the contract expiring.
What happens if there is storm damage or timber theft that removes larger trees?	Many programs have a built-in insurance program. With others, the damaged acreage is removed from the contract and payment continues on the remaining acreage.
How is revenue from the sale of carbon credits handled?	Unlike revenue generated from the sale of timber, carbon revenue is <u>ordinary income</u> and is not considered capital gains. Thus, unlike with the sale of timber, you may pay a (higher) income tax, and you also pay social security taxes.



Question	Answer
Will enrolling in a carbon program interfere with my personal forest land uses?	Most carbon programs put restrictions on commercial harvests only and do not put limits on personal forest land uses, but it is always important to ask.
Where can I get more information?	<p>The National Association of State Foresters has compiled a lot of good information here: <a href="https://www.stateforesters.org/state-defined-solutions/forest-carbon-network/">https://www.stateforesters.org/state-defined-solutions/forest-carbon-network/</a></p> <p>Others include:</p> <ol style="list-style-type: none"> <li>1. <a href="https://sites.psu.edu/focce/">https://sites.psu.edu/focce/</a></li> <li>2. <a href="https://www.canr.msu.edu/fccp/">https://www.canr.msu.edu/fccp/</a></li> <li>3. <a href="https://extension.oregonstate.edu/catalog/pub/pnw-775-introduction-forest-carbon-offsets-markets">https://extension.oregonstate.edu/catalog/pub/pnw-775-introduction-forest-carbon-offsets-markets</a></li> </ol>

The new carbon market offers innovative and exciting opportunities for some forest landowners to get paid to manage their lands for carbon benefits. However, there are many varying programs to choose from, and further change in the market is expected. We encourage interested landowners to continue asking questions and to understand that the answers could change over time. Seeking the assistance of professionals, such as foresters, attorneys, and carbon aggregators, is highly advised.



*Each annual growth ring is additional stored carbon.*



*Wood products store carbon and have a low carbon footprint.*



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