

Questions to Ask About Urban Carbon Credit Contracts

The prospect of a new funding source for your community forestry project is exciting. But the world of carbon credit markets and carbon offsets* is complicated. It is a system based on voluntary contracts and is not regulated or supervised by any governmental body. When presented with a contract offering to pay for carbon credits generated by urban tree planting projects, here are some important questions to ask. And always remember to seek legal counsel before signing contracts.

QUESTION #1: Who is proposing to buy your carbon credits?

There are several parties who might want to buy carbon credits from you. Many international corporations are looking for ways to offset their global emissions to comply with the Paris Agreement. Some universities attempt to offset the carbon emissions generated by employee travel. Cities with “carbon-neutral” policies may want to use urban tree projects to help mitigate emissions they generate. And there are for-profit brokers that buy and resell carbon credits in this emerging market. Each entity has different motivations, and you should be prepared to ask questions about their business model.

QUESTION #2: Do you own the carbon you are selling?

Many organizations plant and maintain urban trees. In most cases, though, the owner of the land on which those trees grow owns the rights to any carbon credits generated. Before entering into an agreement to sell carbon credits for those trees, make sure you have a legal right to do so. This likely means a separate contract with the landowner detailing who has the rights to any carbon credits generated — and the terms for granting those rights. City staff should confirm with their legal department or city council how to sell carbon credits for city-owned trees.

QUESTION #3: What are you required to do?

Selling your carbon credits will typically require some work on your part to prove that the trees are still alive and growing. That might mean an annual census of trees, with measurements, or perhaps a sample audit. If your organization does not have the resources to conduct this measurement and reporting work, will the funding provided by selling the carbon credits allow you to do this work? What happens when trees die and need to be replaced? The carbon contract is likely binding your organization for a long period of time, so make sure you have the capacity to fulfill its requirements.

QUESTION #4: Is the payment you are promised appropriate?

The contract will likely state the projected amount of carbon credits generated by the tree project, and you should understand that number. Overly optimistic values for the amount of carbon trees can sequester over time may trigger other contract clauses about “shortfall,” requiring additional work by you to make up the difference — many years after the original trees were planted.

continued 

**Note: Carbon credits are referenced in various ways: as verified emission reductions (VERs), as carbon credits, as carbon offsets, or sometimes simply as tons of carbon dioxide (CO₂). In this document, 1 VER is equal to 1 carbon credit, which is equal to 1 metric ton of CO₂.*

Dr. Greg McPherson — using optimistic growth factors — estimates that a typical urban shade tree will store approximately 5 metric tons of CO₂ over 40 years. The potential value of that carbon is below:

# of Trees Planted	Average Annual Carbon Credits Generated	Total Carbon Credits Generated Over 40 Years	Total Value of 40-Year Contract @ \$5/metric ton	Total Value of 40-Year Contract @ \$50/metric ton
250	31.25 VERs	1,250 VERs	\$6,250	\$62,500
500	62.5 VERs	2,500 VERs	\$12,500	\$125,000
1,000	125 VERs	5,000 VERs	\$25,000	\$250,000

QUESTION #5: When do you get paid?

The contract should be clear on when you will begin to receive payments for the carbon credits you are selling. Is the payment contingent on something else happening in the carbon marketplace that is out of your control? If you fulfill your end of the bargain — auditing, maintenance, and reporting requirements — you should receive a payment. If you don't get paid, can you terminate the contract? Do you still own the rights to your carbon credits?

QUESTION #6: What system is used to verify your carbon credits?

There are different systems, or protocols, for calculating and verifying the amount of carbon generated by the growth of your trees. The protocol for verifying the carbon produced by your urban planting project should be based on research conducted by reputable urban forest scientists and practitioners.

QUESTION #7: How will your carbon credits be registered?

There are three large carbon registries in the U.S.: American Carbon Registry, Verra/Verified Carbon Standard, and Climate Action Reserve. These large, established registries have created standards for carbon crediting. In addition, these registries:

- Are nonprofit organizations.
- Use national crediting protocols developed by scientists and stakeholders.
- Fully disclose their fees.

To maintain the integrity of this marketplace for issuing, buying, and selling carbon credits, these registries do not buy, repackage, or sell carbon credits from projects. If your buyer issues their own carbon credits or promotes itself as a registry, you may want to investigate their business model.

OTHER RESOURCES:

For more background on carbon trading and carbon offsets, visit the following websites:

- International Carbon Reduction & Offset Alliance (ICROA): www.icroa.org/Carbon-Offsetting
- International Emissions Trading Association (IETA): www.ieta.org/IETA-Resources
- There is also a series of videos on the history of carbon markets, at www.ieta.org/kyototoparis

Or, contact Jeremy Manion, Carbon Development Manager at Arbor Day Foundation, at jmanion@arborday.org or 402-473-9561.

