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SUBJECT: Testimony of Debbie Reed, Executive Director of Ecosystem Services Market Consortium (ESMC), to a hybrid hearing on Voluntary Carbon Markets in Agriculture and Forestry of the Full Committee on Agriculture of the United States House of Representatives

Good morning Chairman Scott, Ranking Member Thompson, and distinguished Committee members. Thank you for the opportunity to appear before you today. I am Debbie Reed, the Executive Director of the Ecosystem Services Market Consortium (ESMC) and our research arm, the Ecosystem Services Market Research Consortium (ESMRC). With 25 years' experience working in private carbon and ecosystem services markets with an exclusive focus on agriculture, I am delighted to see the strong and growing interest in the value of natural climate solutions from working agricultural lands.

ESMC is a member-based, not-for-profit organization with over 80 members across the agricultural supply chain and value chain. Our members have co-invested with us in a national scale, science-based ecosystem services market program devoted exclusively to agriculture. We generate multiple stacked environmental credits from farms and ranches. Our members include a wide range of food and beverage companies, agribusinesses, farmer-led associations, farmer check-offs and cooperatives, conservation NGOs, and land-grant universities. We really do span the ag value chain. Our innovative program generates multiple credits in high demand from corporates as well as from municipalities, and government agencies – all of whom are currently engaged in our projects across the country as buyers of these credits.

ESMC's mission is to scale soil health and beneficial impacts from agriculture. That success requires that we adequately compensate farmers and ranchers for their services that are in such high demand and provide them the tools to be successful in these markets.

While we **can** operate in traditional carbon markets, right now we are not. We are operating in a new market context across agricultural supply chains. Private sector action is the reason there is new and significant demand for natural climate solutions in ecosystem services markets. Corporations in the food and beverage sector and agricultural value chain are investing millions of dollars to reduce their environmental footprint from food and agriculture. ESMC is an enabling program to leverage these private sector investments and ensure these organizations are successful at scale. That new market opportunity is different than the traditional carbon offset market.

When private sector corporations calculate their GHG inventory and commit to reduce that inventory, they calculate direct GHG emissions from their facilities and operations, and indirect emissions from their supply chains. Corporations can purchase carbon offsets to reduce their direct GHG emissions from facilities; but market standards and accounting rules prohibit the purchase of offset credits to reduce *indirect* supply chain emissions. Companies have to actively generate emissions reductions from the farms and ranches that supply the products they purchase, and file annual reports quantifying environmental impacts achieved.

Those supply chain emission reductions are referred to as **insets**. They are not the same as carbon offsets. They are not tradeable assets, like carbon offsets, and they can't be generated, claimed or sold to anyone outside of the agricultural supply chain. Up to 90% of the total GHG footprint for many food and beverage companies is from their indirect agricultural supply chain. That means the majority of their actions and investments have to come from emissions reductions from farmers and ranchers in their supply chain. It is costly and resource-intensive for every company to do that individually across their entire supply chain for all their purchased commodities.

ESMCs program enables collective action across our members, which include buyers and sellers in the same supply chains, and on-the ground partners like The Nature Conservancy. Ours is a collective team effort. Our model allows multiple members to co-invest in projects and share costs. ESMC ensures the protocols we use are standards-based, science-based, transparent and validated by global standards bodies; and we undertake the role of quantification, work with independent verifiers, and issue credits that corporations buy. We then pay the farmers and ranchers whose actions create the value. We can stack and sell the credits in a bundle or disaggregate and sell them separately.

Our member corporations – including companies like General Mills, ADM, Nestle and McDonalds, for instance, are buying the carbon inset credits, and in some cases the water quality benefits from these projects as well. We have municipalities and state agencies such as the Kansas Department of Health and Environment who are purchasing the water quality credits. We recently launched our first cropland project which includes biodiversity credits, as well, which will be purchased by the Missouri Department of Conservation.

I'd like to publicly thank our members and funders for their partnership, collaboration and ongoing contributions. I appreciate the opportunity to appear here today to discuss how these markets work and how they can benefit US farmers and ranchers, and I look forward to answering your questions.

Sincerely,

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