Carbon Credits and its potential impact for producers and elevators

Chris Malone and Dan Mehochko with Indigo Ag gave us a small preview of the new 45Z tax credit that is a part of the Inflation Reduction Act. This new program will use a CI "Carbon Index" score which will give ethanol and biofuel plants tax credits depending how they test. For an ethanol plant, they need to have a CI score below 50 to get credits.

- What are these credits worth? Every point below the required amount is worth 2 cents per gallon.
- Since this program starts in 2025 (and is currently funded through 2027), do you need to be concerned about it in 2024? Yes! Need to remember that 2024 corn will be used in 2025 to feed these plants. Producers that don't take the time and effort to know their CI scores in 2024 can't get the benefits in 2025.
- Will ethanol plants look to source grain from producers and elevators that can provide accurate CI scores in 2025? The plants that have scores that can make them eligible for the credits should be trying to source bushels from both producers and elevators. Every plant's score varies widely depending on their energy source (coal vs gas), how much energy they use (dry vs wet distillers) as well as other practices such as carbon sequestration. In some cases, a plant may not be able to get below 50 and the 45Z credits would become a moot point. The typical corn farmer has a CI score of 29 and their goal will be to get that score below this. The CI score is determined by field and not by farm, making recordkeeping not a small task. Those that can plant cover crops and utilize a no-till operation will have the lowest CI scores. Can your CI premiums make up for potential yield loss depending on these farming practices? Nitrogen and fertilizer types will have different scores. If anhydrous has a lower score, will that work for your soil types?
- Do farmers in regions where yield is much more variable have a more difficult time achieving a beneficial score vs those in higher yielding and less yield variable regions? Northern plains producers that apply enough N for 180 bpa and only end up with 130 will have a harder time than C. IL, for example, where yield variance is normally much less. To date we are still in the infantile stage for this with more questions than answers. Last week we hoped to get an answer from the Department of Energy on the Greenhouse Gases, Regulated Emissions and Energy Use in Transportation (aka GREET) model but, this was delayed for several weeks. It's this GREET model that is supposed to create a scoreboard to track carbon emissions and provide a transparent pricing system.
- For the commercial elevator, know that some of your customers will be asking what you are providing if they want to verify their CI scores and how will they be compensated? Your compensation should be determined what your local ethanol plants are planning to do for elevators vs what they will do for individual producers. Today's advice is to talk with your local ethanol plants to see if they plan to participate and how will they potentially compensate elevators vs producers. Still need to remind ourselves that this is predicated on policy that has not been defined by the IRS and DOE yet. What claims the farmer could get is just not known at this time.