



The Lyme Timber Company



August 7, 2009

The Honorable Barbara Boxer, Chair
The Honorable James M. Inhofe,
Ranking Member
U.S. Senate Committee on Environment and
Public Works
410 Dirksen Senate Office Building
Washington, DC 20510

The Honorable Jeff Bingaman, Chair
The Honorable Lisa Murkowski,
Ranking Member
U.S. Senate Committee on Energy and Natural
Resources
304 Dirksen Senate Building
Washington, DC 20510

The Honorable Tom Harkin, Chair
The Honorable Saxby Chambliss,
Ranking Member
U.S. Senate Committee on Agriculture,
Nutrition and Forestry
328A Senate Russell Office Building
Washington, DC 20510

The Honorable John F. Kerry, Chair
The Honorable Richard G. Lugar,
Ranking Member
U.S. Senate Committee on Foreign Relations
Dirksen Senate Office Building
Washington, DC 20510

Re: Domestic Forest Offsets and Supplemental Forest Carbon Program in the Climate Bill

Dear Senator:

We respectfully urge the Senate to strengthen domestic forest carbon provisions relative to those contained in HR 2454 through both a *rigorous forest offsets program* and a meaningful program for *supplemental forest carbon storage* funded through a small portion of allowance revenues. No climate legislation can be complete without a robust domestic forest carbon program, and the changes we recommend below will further strengthen legislation in order to achieve that important goal.

Our organizations have a long track record of supporting a meaningful role for forests in climate policy, both globally and within the United States. Many of our organizations have been involved in the development and implementation of policies and project accounting standards - both voluntary and regulatory - and our recommendations are based on this experience and our belief that forest climate policy can achieve real climate and conservation benefits while providing significant new revenue opportunities for forestland owners and farmers.

Forests in the United States sequestered 13 percent of our annual greenhouse gas emissions in 2007 and the U.S. Department of Agriculture estimates that this carbon storage could be almost doubled. Domestic forest carbon sequestration can therefore be an important component of effective climate legislation if climate legislation contains offset and other policy mechanisms that ensure environmental integrity and clear incentives. To achieve that goal, we encourage you to adopt the following recommendations, which are based on a previous letter from our organizations that articulated key design principles (April 15, 2009 letter attached).

1. **Forest carbon offsets should meet high quality standards.** Offsets represent a substitute compliance option for covered entities to meet required emissions reductions, and so it is essential that offsets represent real, additional, verifiable, enforceable and permanent climate benefits. Initiatives/approaches for reducing atmospheric CO₂ that involve farms and forests, but that cannot meet this “five part test” should instead be considered for the supplemental emissions reduction program. Allowing offsets that do not meet these five rigorous standards would reduce the total climate benefits of offsets, compromise the effectiveness of the emissions cap, and diminish the opportunity for landowners to take advantage of this new market-based opportunity because offsets buyers need a high quality product with no credibility issues or perceived future risk. If forest and agriculture offsets do not meet this standard, then buyers may well go elsewhere. An overarching concern with HR 2454 is that it holds forest and agriculture offsets to different standards than other offsets and applies different procedures of measurement, administration, and oversight. Priority modifications to HR 2454 include the following:

- All offsets must be measured according to similar criteria. The separation of the new Title V Agricultural and Forestry Related Offsets and the Title III Part D Offsets provisions, with different criteria and procedures, is detrimental to the integrity of the offsets credits and would substantially increase the administrative burdens for federal agencies and program participants. The roles of USDA and EPA should be reconciled and the two programs harmonized.
- The offsets program delegated to the Administrator of EPA is built on a firm foundation of science, public accountability and transparency, and is backed by established administrative procedures contained in the Clean Air Act. By separating Title V under a separate legal authority and removing key transparency provisions in the project approval and verification sections, HR 2454 threatens the credibility and ultimate success of forest and agriculture offsets.
- The U.S. EPA is the sensible lead regulatory agency because offsets are compliance units within the cap-and-trade system; EPA must have the authority to address quality concerns impacting the broader climate program for which it is responsible. At the same time, our organizations recognize that USDA has the experience and capacity critical to working with farm and forestland owners. Joint rulemaking to ensure a harmonized approach for offset methodologies would make best use of each agency’s expertise and responsibility, yet still allow USDA to lead in outreach and implementation within the agriculture and forest sectors.
- An independent scientific advisory board is essential for the integrity of the offsets program. The separate USDA advisory committee established under Section 531 has less authority and specific expert involvement than the EPA equivalent in Section 731. We

recommend a single Offsets Integrity Advisory Board retaining the key provisions set out in Section 731, with effective representation from agriculture and forestry experts.

- “Additionality” and “baselines” are key offsets concepts that were weakened in the Title V offset section in the final version of HR 2454. The language from Section 734(a) rather than Section 504(a) should be used to ensure that offsets provide carbon enhancement beyond “business as usual” (BAU). (See attached letter of April 15, 2009 for our recommended approaches to baselines and additionality.)
- The offset categories in the detailed list added to the final version of the bill (in Sec 503) should not be required components of the offsets program. A primary purpose of the two-year rulemaking process and independent advisory board should explicitly be to review in detail what constitutes an acceptable offset category. Furthermore, offset categories that are initially established should be reviewed periodically by the EPA and removed if they are determined to fail in meeting the five-part test. The approval of offset categories must be based on sound science and subject to change as new science emerges.
- Offsets must produce long-term climate benefits that are substantially equivalent to emissions reductions under the cap. For the purposes of an offset program, maintaining a carbon sequestration offset for 100 years can be considered equivalent to permanent emission reductions from sources within the cap. Therefore, both Section 504 and 734 should specify the 100-year timeframe for regular offset reversal provisions. Any credit that is reversed, or whose contract ends prior to 100 years, must be replaced. Many of our organizations are also concerned that the Title V, Section 504(c) and (e) option of 5-year term offset credits is ill advised. Such short-term projects may not achieve meaningful climate benefits and will be hard to market because of the uncertain cost buyers face to replace expiring term offset credits. Landowners could be cut out of this new market as buyers go elsewhere.

In general, we recommend prioritizing projects with long-term binding commitments such as conservation easements, and placing shorter-term projects in a robust supplemental emissions reduction program to ensure that these projects are funded but that the integrity of the offsets program is not compromised. If short-term offsets are allowed, they must be appropriately discounted, and last for a sufficient period of time to truly affect management behavior, considering such factors as stand age, normal rotation lengths and forest type. Short-term offsets would have to be constructed in such a way that replacement with an allowance or permanent offset is ensured.

- Early action that was undertaken to reduce emissions in advance of mandatory legislation should be appropriately recognized. However, early action credit should only be awarded for reductions that meet high standards of environmental integrity as in Sec 740. Therefore, offset credits should only be awarded for new sequestration (after January 2009) from approved offsets programs as allowed in Section 740, and prior sequestration should be rewarded only through the allocation of allowances, as set out under Section 795. The amount of the reward should be calculated using criteria to distinguish the different rigor undertaken by different early action programs, as program quality varies.

2. **Additional forest policy initiatives are needed besides offsets to enhance forest carbon and support adaptation to climate change.** A portion of allowances should be set aside to: 1) ensure participation of smaller landowners in carbon-enhancing projects not appropriate for offsets; 2) fund permanent conservation (avoided deforestation) to prevent the forest conversion that releases large amounts of carbon and prevents future sequestration; and 3) measure and monitor forest carbon at the state level to establish baselines and track trends. HR 2454 has a robust program for supplemental emissions reductions from international forests, funded through 5% of the allowance revenues. The small allowance program established for agriculture in Section 788 should be expanded to include these important forest carbon goals, and should provide significant allowance funding given the importance of domestic forests as a climate mitigation tool.

With one-third of our land base currently forested, the U.S. is the fourth most forested country in the world. The USDA Forest Service estimates that over one million acres of forest were lost each year through the 1990's, and 50 million more acres are projected to be converted to other uses in the next 50 years.¹ Many experts believe conversion rates will be far higher as land prices rise. Priority modifications to HR 2454 include the following:

- Section 788 should be expanded to clearly include forest projects as well as agriculture, and should be significantly strengthened as set out below.
- The allowance set-aside for the domestic forest component of this program should be on the order of 1-2 percent of allowances annually, and this funding should not be taken from other forest programs such as international forests or adaptation.
- At least 50 percent of this forest funding should be set aside for purchase of permanent conservation easements to directly address escalating land conversion and reduce future emissions from domestic deforestation.
- Forest carbon projects funded under the program should be undertaken for significant periods of time (e.g., 25 years) or else very carefully prescribed to ensure that the program is only subsidizing types of activities that provide real carbon benefits during the contract period. Shorter-term contract payments should be lower than long-term contract payments to reflect the carbon reversals that may occur as contracts expire.
- Adequate funding should be provided for forest carbon measuring and monitoring in order to develop meaningful state baselines for forest carbon stocks and to help states maintain and exceed that baseline for the long-term. This should include funding to: 1) expand the Forest Inventory and Analysis program to increase sample sizes and intensify measurements; 2) allow states to update growth and yield data to improve future projections of forest carbon; 3) research the impacts of harvesting regimes on forest floor and soil carbon; and 4) conduct remote sensing and improved monitoring to develop statewide trends on forest conversion and reversions. This program funding is essential in order for the states and the U.S. as a whole to develop the knowledge base, framework, and tools to protect and enhance our forest carbon resources over time.
- The renewable energy infrastructure component of Section 788 should be moved to other, relevant sections of the legislation.

¹ USDA Forest Service 2007. *Interim Update of the 2000 Renewable Resources Planning Act Assessment.*

Well-crafted and rigorous forest offsets will offer almost immediate emissions reductions, provide flexibility under a cap and trade system, and reduce costs for program compliance. Forest offsets and forest conservation funding will provide incentives for landowners to conserve forests and the associated carbon, while giving them an important new income stream tied to the emerging low-carbon economy. A supplemental funding program will also allow many of the 11 million small landowners in the country to benefit from carbon-enhancing initiatives that might not be able to meet the rigorous offsets standards. These programs will also provide considerable co-benefits including clean water, biodiversity and wildlife protection, green jobs and recreation, and climate adaption. Together, the two forest carbon programs set out above will substantially help the United States meet its climate goals and reduce global warming, and we respectfully urge you to include these provisions in Senate climate and energy legislation.

Sincerely,

Environment Northeast (ENE)

Forest Guild

Lyme Timber Company

Manomet Center for Conservation Sciences

New Forests

Pacific Forest Trust

Pinchot Institute for Conservation

Southern Environmental Law Center

The Nature Conservancy

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