

Notes on Conservation Finance/Funding for RCPs

Session 3: Forest Carbon Markets: Experience and Perspectives from New England

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Dylan Jenkins: Experiences and Perspectives from New England

- Are forest carbon markets an opportunity for New England partners?
 - California forest carbon represents a \$2 billion opportunity. Landowners in 48 states can access CA compliance carbon market which may pay out \$2 billion by 2020.
- In CA, 2% of global greenhouse gas emissions use cap and trade.
- If going outside cap, buy forest carbon offsets (\$9/offset right now in CA).
- This is real, offset projects are being implemented and landowners are being paid!
- Frontloaded—upfront payments are high on a per acre basis.
- Carbon offsets are calculated differently by USFS here than in CA, but projects are happening in New England.
- TIMOs and REITs are already generating significant revenue, with increasing confidence they can get return on their investments.

What are carbon offsets?

- Regulated compliance program – in CA, the entire economy has a cap on Carbon emissions and a price is put on CO₂ emissions.
- Other ways to reduce emissions are to buy a permit (“allowance”) from the state to pollute a certain amount. Allowances also auctioned off at \$12/metric ton of CO₂.
- Offsets are voluntary, non-regulated, and are trading for about \$9/ton so emitters are going to buy as many offsets as possible. Still a small percentage of emissions, though.
- This concept was initiated by conservatives, republican (Reagan and Bush) administrations and 11 ARB forest carbon offset projects have been issued since.

Landowner Perspective

- Being paid for the Carbon sequestered in their land.
- They can still manage their forests as long as their carbon supply remains constant
- Different types: methane gas capture, CFCs disposed of, etc.

What happens when a forest “goes bad?”

- Each project goes through a risk analysis and when involuntary reversals occur, they are fully covered by insurance.

Finite Carbon

- Has 700,000 acres of IFM offset projects for CA ARB.
- Very diverse in size (~2,000-100,000+ acres) and location (coast-to-coast).
- Hawaii and Alaska not included because FIE (FAE? Not sure of acronym here) dataset didn't exist in AK and Hawaii, but it is there now for coastal Alaska and is in the works.
- Value is calculated by biological growth, carbon stored by forest, and market value of your trees.
- Biological growth and market value assessed (e.g. you may have good wood, but if there is no mill nearby, it has little to no value).
- These offsets are being used for emissions requirements in CA for compliance purposes. They're not being used voluntarily right now, but could be in the future.
- No average per-acre delivery because it depends on the quality of carbon stores there.
- Most payment is upfront, but conservative management lets it be a gift that keeps on giving.

Liz Adams: Case Studies

- Big ownership changeover from paper to timber investment companies (40 million acres).
- Lyme Timber has a niche in the industry—they sell conservation easements, giving them a better return and eliminating risk associated with development.
- In 2008, Lyme Timber was approached by conservation groups about property by Downeast lakes, an important conservation corridor with very expensive waterfront. Lyme Timber got a tax credit to purchase this parcel, along with money from conservation groups. The State of Maine bought the easement, Lyme still harvests it, and Downeast Land Trust owns the easement.
- Important to understand if your project is appropriate for carbon offset sales.
- Reviews are done. Ongoing management is needed and if volunteers are involved they need to be well informed.
- Your time could be better spent fundraising if your project is not in the scope of carbon offsets.
- Carbon offsets can get capital to agencies when they need it most.
- Cap and trade, etc., going to have to be a state by state thing, not federal. States will need to see if it works in CA to gain trust in these methods and then step up to implement them.

Chris Pryor: Hersey Mountain, NH

- Approximately 4000 acres. Conducted ecological evaluation and then divided in half (half wilderness and half managed land) to see the impact.
- Brought concept of selling carbon credits to the Board to weigh the risks and benefits.
- Selling carbon on all the land was considered too risky, so just sold the wildlands portion.

- Selling Carbon fit into NEFFs educational mission
- Opportunity to generate revenue from land where there is otherwise little return.

Risks and Challenges

- Following changing regulatory system, state and federal. Caused delays in verification.
- Uncertain future demand and price for product.
- Long term commitment to offset program (100 years from last issuance of offsets, if you sell the clock “resets”). You have to either maintain or increase your carbon stocks. Whether or not to harvest is up to landowner as long as you maintain stock.
- Future costs of inventory and verification. NEFF felt the upfront payments made this worthwhile. Costs were based on annual registration costs, assessment, etc. Must re-inventory every 12 years. Costs went up, then stabilized because there was a bottleneck of assessors who were initially underpaid.
- Overall, each landowner has a unique risk profile.

New England

Need to work across boundaries to make this feasible here. This is why things like RCP networking are good. The desire is there in New England. However, many landowners find this process too complex. How can we make this easier?

- No regulation as to whether to do an easement first, then carbon project later, or vice versa. Finite Carbon recommends easement first (one that doesn't address silviculture to keep easement fairly clean), and then assess feasibility of forest carbon projects after. Forest carbon projects are fairly permanent (100 years). They can be bought out, but complicated/expensive.

Advice for people considering a forest carbon project

- This might not be the huge financial windfall, but it is frontloaded. A lot of money should be set aside to pay for maintenance later.
- Work with someone who understands the risks of the project.
- Unrestricted sources of funding are rare, understandable to want to look into these forest carbon projects
- Contact groups like Finite Carbon as soon as possible in the process. The earlier the better.