Forest Project Protocol v3.0 Comments

May 11, 2009

Introduction

Thank you for the opportunity to comment on the April final draft of the Forest Project Protocol, v3.0. We commend the CAR Forest Project Protocol Working Group for their dedication and hard work in bringing the Protocol to this point and in addressing the difficult issues involved.

New Forests is an investment management and advisory services firm specializing in forestry and land-based environmental markets – such as timber, carbon, biodiversity and water. New Forests is headquartered in Sydney, Australia, with offices in San Francisco, Washington D.C., and Kota Kinabalu, Malaysia.

New Forests Advisory, the company's consulting arm that is based in San Francisco, provides strategic and technical services related to carbon and other emerging environmental markets. We apply years of carbon market experience to assisting our clients: New Forests staff members participated in the committee that developed the previous CCAR forestry protocol, edited the Voluntary Carbon Standard's AFOLU guidelines, contributed to the development of the New South Wales Greenhouse Gas Abatement Scheme, and currently participate in the Forest Climate Working Group and the ANSI-accredited Forest Carbon Standards Committee.

Approaching the topic from an investors' perspective, we have the following comments on the current Forest Project Protocol draft:

§3.2: Clarify Project Start Date Requirements

The protocol states that "[u]ntil 12 months after the adoption of the updated protocol, a Project Developer may list a project that has a project start date as early as 2001 if all the necessary information can be provided to meet the requirements of this protocol." Projects are initiated when a Project Developer "begins an action that over the project life increases the sequestration or decreases the emissions relative to the baseline activity." Identifying a clear action initiating a project is simple for Reforestation and Avoided Conversion projects but substantially more difficult for Improved Forest Management projects – for example, the fact that a landowner has not harvested in the past eight years does not necessarily indicate an intention to increase the length of a rotation.

We suggest that the Protocol either clearly state: a) that the protocol will accept a statement from the project developer that the IFM project was in fact started prior to 2009; or b) what specific documents or actions are required to prove the start date of an IFM project prior to 2009 (e.g. inventory and management plans developed by a registered professional forester dating from the start date).

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§3.3: Project Implementation Agreement Should Be Available for Comment

The Project Implementation Agreement (PIA) will be a key factor in the decision making of landowners as to whether or not to develop a carbon project under the protocol. Many forest landowners have expressed interest in the details and contents of the PIA. We recommend that a draft of the PIA or a document describing it be published and that the comment period on this draft of the protocol be extended to allow the public a reasonable time to evaluate and comment on the PIA.

§3.3: PIA Should Enable Landowner "Buy-Out" via Allowance Purchases

We further strongly recommend that the protocol and the PIA be structured so as to enable landowners to "buy-out" their carbon permanence liability. A forest carbon protocol must balance the market demand for permanent, fully-fungible carbon credits with the reasonable landowner demand for land-use flexibility. A buy-out provision would accomplish this balance in an environmentally responsible fashion. Other proposed cap and trade systems that incorporate forest carbon, such as Australia, also enable landowners to exit their carbon liability if they "make the system whole".

The buy-out provision should allow a landowner to exit the carbon project if they wish by purchasing and retiring an amount of tons CO2e equivalent to the amount sold by that project to date, adjusted according to the latest science on residence time in the atmosphere of an emitted ton of fossil carbon CO2 (e.g. if 80% of the CO2 emitted in year 0 remains in the atmosphere at year X, and the project developer who sold CRTs in year 0 wishes to exit the project, the project developer should only be required to purchase and retire 80% of the tons sold in year 0).

To prevent gaming, we suggest that the PIA require developers to purchase and retire allowances issued under the compliance cap and trade system (rather than offsets) if they wish to voluntarily exit their permanence liability.

§6.1.1: Reforestation Projects – Eligibility Test

In general, New Forests does not support the use of financial additionality tests for carbon offsets because they are either arbitrary or too easily gamed.

If the working group keeps the financial additionality test for reforestation (page 14 and Appendix E), we recommend that project developers be able to prove that a competing land use with a higher NPV would prevent the reforestation project from occurring in the absence of carbon revenue.

The test states that reforestation sites must be analyzed according to the look-up table in Appendix E; if the site NPV derived from the look-up table is above zero, the site does not qualify under the protocol because it is financially viable without carbon revenue. This logic will exclude sites where reforestation is financially viable but cannot compete with a better land use. For example, a previously forested site might currently be used for grazing at an NPV of $500/acre. Based on the criteria in Appendix E, this site might have a reforestation NPV of $247/acre. In this example, reforestation would not occur without carbon revenue because the site is worth more for grazing, but it would be ineligible for a reforestation project under the Protocol because the NPV is greater than zero according to the look-up table.

If the Protocol does not allow project developers to demonstrate that a competing land use with a higher NPV currently prevents reforestation, reforestation projects will only occur on the least suitable, most marginal sites.

§6.1.2: Leakage Assessment for Reforestation Projects

The leakage risks associated with crop and grazing displacement shown in the chart on page 16 are unreasonably high. The quoted source (Murray et. al, 2005) for the 24% leakage risk associated with cropland displacement assumed that the leakage occurred in forested areas under a scheme where afforestation was the only form of carbon compensation available. This is not the case in under this Protocol because there are also incentives for forest management. It is therefore unlikely that grazing activities will simply shift to currently forested areas and there may actually be some "good" leakage as shown in table 6.2 of the paper by Murray et al. New Forests acknowledges that there will be some risk associated with the displacement of grazing and cropping activities but it is unlikely to be at the expense of forests and should therefore be less than 24%. We further advocate that the maximum leakage risk associated with displacement of grazing activities should at most be equivalent to the cropland leakage risk.

Table 6.1: Emissions Associated with Machinery Use and Site Preparation

The inclusion of this requirement adds unnecessary complexity to the Protocol. While there may be some emissions associated with site preparation activities, in our experience these are likely to be significantly less than the agricultural and mobile combustion emissions associated with the baseline activities (cropping or grazing). Such emissions would therefore be considered *de minimis* relative to the carbon sequestered by the tree crop over the life of the forest.

We therefore recommend (a) conservatively ignoring all emissions associated with mobile combustion; or (b) allowing the inclusion of emissions associated with mobile combustion and agricultural emissions in the calculation of baselines for reforestation projects.

§6.2.1.1: Step 4 in IFM Baseline Procedure Should Be Optional

In Step 4 of the baseline procedure for IFM projects (page 23), the project developer is required to average the baseline from Step 1 and the baseline from Step 2. In effect this creates a baseline that does not realistically reflect the time it would take for a project with initial stocks above Common Practice to harvest down to Common Practice in states with significant forestry regulations (such as California). Averaging the entire baseline levels the playing field from a NPV perspective between project developers in states with forest practice rules and those in states without such rules. Because crediting in this early period of the baseline is essentially compensating a landowner for past good practice (which helps maintain existing stocks and avoid the incentive to harvest before initiating a carbon project), the particular year in which a project receives credit for stocks above Common Practice does not matter.

Nevertheless, a project developer may wish to receive CRTs for stocks above Common Practice more gradually for strategic or commercial reasons. We therefore recommend that the Protocol make Step 4 optional, enabling project developers at their election to model the time it would take to reduce stocks to Common Practice in a state like California or to average the entire IFM baseline.

§6.2.1.1: Financial and Legal Reference

The protocol requires that the modeling of the live tree carbon baseline must reflect financial constraints as demonstrated through one of two options, one of which is "Providing evidence of activities similar to the proposed activities in the baseline within the past 15 years in the assessment area. The comparison must demonstrate that harvesting activities have taken place on at least one other comparable site where reduction in live standing stocks has occurred on: . . . b. Same zoning class." Because the baseline assessment areas will be fairly large, they may often encompass multiple local jurisdictions with different zoning systems that may not employ the same zoning classes. We suggest that the language be changed to "b. Equivalent zoning class."

§6.2.1.1: Projects with Initial Live Tree Carbon below Common Practice

The sentence on page 23 describing projects with initial live tree carbon stocks below Common Practice seems to omit a necessary verb or object and is unclear: "For projects with initial live tree carbon stocks (metric tonnes per acre) that are below Common Practice, baseline modeling of standing live carbon stocks cannot go below the current live tree carbon stocks (metric tonnes per acre) and exceed or increase until the current stocks exceed the higher of: a. The Legal Reference, b. The High Stocking Reference".

We suggest that this sentence be changed to "baseline modeling of standing live carbon stocks cannot go below the current live tree carbon stocks (metric tons per acre) ~~and exceed or increase~~ and *must increase* until the *modeled* stocks exceed the higher of".

§6.2.1.1: Discrepancy Regarding Financial and Legal Reference

The sentence on page 23 describing projects with initial live tree carbon stocks below Common Practice refers to "The Legal Reference" rather than "Financial and Legal Reference." The figure illustrating "Step 5" of baseline modeling for such projects on page 24, however, notes that "Baseline modeling of live tree carbon is conducted . . . such that the average of the live tree carbon stocks is at or above the High Stocking Reference, the Financial and Legal Reference . . ." and the diagram itself refers to the "Financial and Legal Reference." Furthermore, page 20 of the text refers to the "Financial and Legal Reference" as one unified reference point constraining project baseline modeling. The omission of "Financial" in the text appears to be a typographical error.

For consistency and to prevent the gaming that would occur if the word "Financial" is omitted in the above sentence, we recommend that the sentence on page 23 be changed to "For projects with initial live tree carbon stocks (metric tonnes per acre) that are below Common Practice . . . exceed the higher of: a. The *Financial* and Legal Reference, b. The High Stocking Reference."

§6.4: Quantifying GHG Emission Reductions

The example given in the table on pages 33-35 appears to have an error in it. Step 29 shows Total Annualized Carbon in Harvested Wood Products remaining in use of 0.9 tons in years 2 and 3. This is equal to 47% of the total harvested wood products (2.0 tons) instead of 47% of the harvested wood products adjusted for mill efficiency (1.4 tons).

Table A.2: Carbon Quantification for Dead Stumps and Roots

Dead stumps and roots from previous harvesting activities are not explicitly mentioned in any of the carbon pools listed in Appendix A. A significant quantity of carbon can be stored in dead below ground biomass and this should be an optional pool for forest management projects.

Confusing Terminology for Carbon Units

The terms “ton” and “tonne” appear to be used interchangeably within the document. All carbon stock measurements should be referred to in terms of metric tonnes (1000kg) and any references to imperial tons should be corrected or explicitly stated as imperial tons.

Appendix C.3: Inconsistency in Social Risk Amount

Section C.3 on page 67 states an overall social risk of 5% will be applied to all projects, regardless of project type and location, but the last line of the table on page 68 shows a default social risk of 2%. Which figure is correct?

Thank you for the opportunity to provide these comments. Please feel free to contact us should you wish to discuss any of the comments above.

Sincerely,

Brian Shillinglaw and John Eckford

New Forests Advisory, Inc.