



May 27, 2009

Climate Action Reserve
Gary Gero
President
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Phone: (213) 891-1444

Dear Gary,

As a stakeholder and investor, we would like to commend CAR for promoting scientifically rigorous protocols which reliably demonstrate both the atmospheric and additional benefits achieved by forestry offsets projects. We are impressed by the improvements already accomplished given the diversity of interests represented in the Working Group. As we understand, the current review process was initiated with the recognition that designing a feasible and effective forest project protocol for all landownership types is critical for meeting the goals of the Reserve and providing a framework for state and/or federal regulatory entities. The purpose of this particular correspondence is to express several concerns and suggest alternatives regarding issues raised at the ARB/CAR public comment meeting on April 29th as well as to the Working Group meeting on May 15th.

Equator believes the following strategies would expand the ability for the largest number of landowners possible to initiate forest carbon projects under the CAR Protocol and thus ensure the greatest environmental impact on the aggregate:

- Provide program flexibility by allowing **early termination of the PIA in instances where the registry can be made whole** with replacement credits.
- Endorse the permanence of forest based offsets by allowing issued credits to be **compensated on a one to one ratio.**
- Reinforce that forestry CRTs are equivalent to all other CRTs by allowing the Reserve to be **compensated with any issued tons from any offset type.**
- Establish a defined program for landowners to **demonstrate sustainable long-term management requirements through public agency endorsement and supervision.**
- Allow the **PIA to be subordinate to any other mortgage or title against the project land** base, since making it superior would hinder participation by commercial landowners who have debt on their land because refinancing and or replacing such debt is customary business for these landowners.

Many landowners depend on the ability to restructure their debt in order to achieve their management goals. **Requiring the PIA to subordinate any other mortgage or title against the project land base would eliminate landowner's ability to participate in forest carbon projects by preventing the refinancing or replacement of existing debt.** In addition, the ability for early termination of the PIA provides landowners with the necessary flexibility and assurance to realize the full future value of their asset while preserving the environmental integrity of the registry



through a replacement requirement. Although Equator believes that it is not likely that an early termination provision would be highly utilized due to disincentives such as forfeiture of associated transaction fees, we are convinced that inclusion of this option is essential to promote widespread landowner program participation. As acknowledged by the Reserve at the onset of the current protocol revision period, promoting landowner participation is paramount to achieving any and all of the benefits of forestry projects. In other words, landowner participation is essential to ensure the viability of forestry projects and providing an option for **early termination of the PIA in instances where the registry can be made whole** is necessary for landowners to develop projects.

Further, we are deeply concerned about the suggested remedies for such an early termination provision, namely the replacement penalty ratio and the requirement for replacement with only forestry CRTs. These issues are of critical importance to Equator and to numerous landowners with whom we are in advanced discussions about initiating large-scale projects under Protocol version 3.0. The remedies for early termination of the PIA explained on April 29th would significantly prohibit meaningful participation by landowners in California as well as throughout the United States. A protocol which allows for only small boutique projects that fit narrow ownership types will prevent the necessary scale of participation to adequately address the problems of climate change.

Our concerns regarding the suggested early termination provisions stem from our experiences in the voluntary and compliance markets (Kyoto and EU ETS). The negative impacts of delineating forestry offsets from other emissions reduction types were evidenced in the lack of participation of forestry in those systems. The resulting lack of fungibility of forestry credits persuaded market participants from developing projects or purchasing forestry offsets. The Reserve has the opportunity to support forest based emissions reductions by allowing issued credits to be **compensated on a one to one ratio.** This strategy both ensures the atmospheric integrity of forest carbon projects by guaranteeing that any sequestered carbon that may be reemitted would be balanced by a compensated offset and provides additional benefits in cases where the atmosphere experiences increased carbon reductions from projects that terminate early, but do not actually reverse the sequestration that has accumulated. In addition, the Reserve could reinforce that forestry CRTs are equivalent to all other CRTs by allowing **compensation with any issued tons from any approved offset type.** A forestry offset has the same carbon benefit as any other offset type, and it is critical to secure extensive landowner project development that the Reserve's replacement requirements clearly illustrate this fact.

Another issue vital to landowner participation is the establishment of a practical method for all project proponents to demonstrate sustainable long-term forest management. While nationally recognized certifications such as Forest Stewardship Council (FSC) and Sustainable Forestry Initiative (SFI) are realistic strategies for some landowners, these programs are extremely costly and are not feasible for many potential forest project developers. Commonly, these landowners do manage their forests sustainably, but do not possess the capital to obtain expensive certification. It is unreasonable to expect landowners to participate in forest projects with high-priced requirements that extend beyond their financial means. Accordingly, the Reserve would promote greater program participation by establishing a method for public agencies to confirm landowner compliance with sustainable management requirements. Federal, state and local authorities have



the experience and expertise to identify sustainable management practices and could provide the Reserve with equal assurances as private certification schemes.

It is our belief that if the current forestry stipulations remain in the PIA, the forestry sector would not be able to play a significant role in achieving the goals of the Reserve. Instead, CAR has the unique opportunity to promote forestry as a credible emissions reduction strategy. Forest carbon projects are invaluable for their ability to mitigate carbon emissions as well as for the additional associated environmental benefits. However, realizing the emissions reductions and other co-benefits of forestry projects depends on ensuring the capacity for widespread program participation by providing program flexibility for all landowners and endorsing the equal value of forestry offsets to all other emissions reductions. We appreciate you considering our comments and would welcome the chance to discuss these issues further with you should you have any additional questions.

Sincerely,

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