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USA

January 28, 2010

Ms. Linda Adams, Chairperson
Climate Action Reserve (CAR)

Dear Ms. Adams,

We would like to bring to your attention an issue that could have dramatic and negative impacts on all landowners in California who have an interest in participating in the carbon market. This issue, if not resolved quickly, could undermine the fundamental credibility of the Reserve, its decision making processes, and the California carbon market. Specifically, the Reserve is considering a revision to the Forest Project Protocol 3.1 that would deem Sustained Yield Plans (SYPs) or "Option A addendums" (the individual timber harvest plan (THP) equivalent to an SYP), the legal baseline for Improved Forest Management (IFM) projects. The implications of this guidance, if adopted, would be to exclude nearly all California landowners from participating in the carbon market which is direct contrary to the decisions made by the Forest Protocol Working Group. Further, this decision would eliminate an important source of offsets for California which could ultimately increase costs to the state. As a leading carbon investor, project developer and co-manager of the Eco Products Fund, we are extremely concerned about this issue and its potentially severe implications.

This guidance is predicated on a misrepresentation of the underlying facts. In fact, CAL FIRE, the very agency that regulates the Option A SYPs, has explicitly rejected the notion that SYPs should represent a legal baseline.

The contemplated CAR staff decision would deem all voluntary Sustained Yield Plans (SYPs) to be legally binding and thereby eliminate any possibility of credit generation for IFM projects in the state of California. Since "Option A addendums" can be rescinded at any time, this interpretation is clearly at odds with the CAR forestry protocol section 6.2.1.1 which states that "Voluntary agreements that can be rescinded ... are not legal requirements." Further, the California Department of Forestry and Fire Protection (CAL FIRE) has explicitly confirmed that SYPs are not legally binding, nor does CAL FIRE have the authority to enforce the projected harvest estimates they contain.

This guidance is contrary to the stated objectives of CAR, goes against the conclusions and assumptions of the forest protocol working group.

If the CAR guidance were to stand, the result would undermine both the intent of CAR's Working Group and the Reserve's own stated intentions for the Forest Project Protocol v3.1 to increase participation of both private and public landowners. The Reserve convened an expert Working Group over two years ago, who gave freely of their time and energy, with the explicit instructions to design a protocol that



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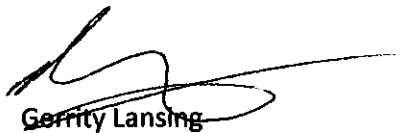
would provide access to the carbon markets to California landowners. The Working Group members that we have talked to insist that this interpretation by the Reserve is completely contrary to their recommendations, and they would never support this conclusion. For the Reserve's staff to unilaterally make this decision would call in to question the Reserve's underlying processes, transparency and public review process.

The implications of this decision would disproportionately impact California by increasing costs to the state and by putting California landowners at a competitive disadvantage.

To be clear, this guidance would only apply to California projects and would put those projects at a severe disadvantage versus those in the rest of the country, because only California has voluntary long term SYPs. Further, the supply of carbon offsets available for AB 32 compliance would be dramatically reduced, causing a potential shortage of supply, which could increase offset prices.

In summary, we have always recognized and been supportive of the need for stringency and credibility in carbon accounting. This unilateral decision undermines the credibility of the Reserve, diminishes investor confidence in the California offset market, and disproportionately affects California. At a time when carbon should be creating opportunities for project owners, developers and providing incentives to reduce emissions, this guidance will only serve to cast a shadow on the Reserve and the emerging California carbon market.

Best regards,



Gerrity Lansing

CEO