

## STAFF REPORT

Agenda Item No:	D
Title and # of Issue:	Forest Vitality Work Plan 3
Objective # & Title:	IBI 5 – Promote the development of forestry carbon-offset markets as an incentive for managing forests, utilizing wood products and maintaining the forestland base, <u>Oregon Forest Carbon Stakeholder Workgroup</u>
Date of Presentation:	March 4, 2009
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### SUMMARY

The purpose of this item is to update the Board on efforts of the Oregon Forest Carbon Stakeholders Workgroup to develop measurement and reporting protocols for forestry activities that avoid carbon dioxide (CO<sub>2</sub>) emissions or sequester atmospheric carbon dioxide. The protocols would allow the inclusion of forestry activities as offsets for non-forest sector carbon dioxide emissions in both voluntary markets and regulatory cap and trade programs such as the Western Climate Initiative.

### CONTEXT

Intermediate Board Issue 5 of the Forest Vitality Work Plan states that markets for carbon offsets should serve as an incentive for managing forests, utilizing wood products and maintaining the forestland base. Most voluntary carbon reporting programs recognize forestry activities (e.g., forestation, changes in forest management, increased forest productivity and wood products yield, forest habitat conservation, and the avoidance of forestland loss to non-forest use) as eligible activities that accrue offsets through avoided CO<sub>2</sub> emissions or sequestered atmospheric CO<sub>2</sub>. Examples of voluntary carbon reporting programs include the U.S. Department of Energy's Voluntary Reporting of Greenhouse Gases (i.e., 1605(b) reporting), the Chicago Climate Exchange, the California Climate Action Registry and the northeastern U.S. Regional Greenhouse Gas Initiative. However, each program employs a different set of criteria for determining eligible forestry activities and in determining how to measure and report the amount of avoided CO<sub>2</sub> emission or sequestered CO<sub>2</sub>.

In February 2007, the western U.S and Canadian region launched the Western Climate Initiative (WCI) to identify, evaluate, and implement ways to reduce greenhouse gases such as CO<sub>2</sub>, focusing on a market-based cap-and-trade design. The Oregon Forest Carbon Stakeholder Workgroup – representing a diverse set of forest landowners, organizations and interest groups – convened in 2008 to develop recommendations on how forestry activities could be included as a non-regulated offset sector in the WCI design. Successful inclusion of forestry as an eligible offset sector in the WCI would expand greatly the current market for carbon offsets sourced from eligible forestry activities.

## BACKGROUND & ANALYSIS

In late 2007, representatives of forest landowners, forest managers, and wood products manufacturers contacted Oregon Governor Ted Kulongoski's office and expressed the need for Oregon to provide input into the development of the WCI; specifically, to advocate for the inclusion of forestry activities as a sources of carbon offsets. The Governor asked his staff and the Oregon Department of Forestry to convene an ad hoc group of stakeholders representing forest landowners and other forestry interests to develop recommendations on how forestry could be included in the design of the WCI. Initial discussions in January 2008 recognized the need to include conservation and family forest landowner interests. By February 2008, an ad hoc group – The Oregon Forest Carbon Stakeholders Workgroup – was formed and began meeting regularly. Attachment 1 lists the core members of the workgroup.

The scope of the workgroup was to:

- ❖ Provide justification, and identify eligible activities, for ensuring forestry's inclusion as an offset sector in the WCI.
- ❖ Make recommendations on existing, modify existing, or develop new measurement protocols to report the actual amount of avoided CO<sub>2</sub> emission or sequestered atmospheric CO<sub>2</sub> that could count as an offset.

The group's work focused on addressing how forestry offsets would address key design elements for WCI offsets. The design elements conceptually describe quality assurances that offset activities must meet to qualify as a carbon offset. The WCI design elements include baseline, additionality, permanence, real (as in measurable) and leakage. The workgroup also sent three letters alerting the WCI to its efforts and advocating for inclusion of forestry activities as an eligible offset sector.

To date it has been difficult for the forestry sector to develop clear, simple, and implementable protocols for meeting the offset design elements because the design elements in themselves are matters of policy rather than technical design. Substantial and divisive opinions exist among workgroup participants about protocol specifics, because existing protocols are structured to suit the type of forestry activity being promoted. For example, the Chicago Climate Exchange protocols promote productive, younger forests managed for wood products because the protocol measures growth on inventory as the amount of offset, including the continued storage of carbon in wood products. In contrast, the California Climate Action Registry protocols promote forest habitat conservation in older forests because the protocol measures carbon storage in the forest; treating baseline carbon storage in wood products as an emission.

The group worked collaboratively to develop consensus recommendations for eligible forestry activities and accompanying reporting protocols. The workgroup adopted the following steps for achieving consensus on protocol recommendations. For each forestry activity:

1. Specifically define the design element and how it relates to the forestry activity,
2. Define the desired outcomes the design element should achieve for that activity,
3. Evaluate current methodologies in existing protocols and rank them in terms of how well each methodology achieves the desired outcomes, and

4. Pick and chose amongst the current methodologies or construct new or hybrid methodologies that best achieve the desired outcomes as the workgroup recommendation.

The group worked through these steps for a broad definition of forest management activity that was inclusive of a range of activities supporting landowner objectives for intensive timber production for wood products to those activities supporting landowner objectives for forest habitat conservation in older forests. Steps 1 and 2 were completed with consensus achieved for the design elements of baseline/additionality, permanence and leakage. However, differences among the stakeholder interests began to surface in Step 3 even though general consensus was achieved in the evaluations. The differences led to deferring workgroup action under Step 4. Overall, the workgroup felt that the effort was constructive in developing common understanding of the key offset design elements but did not move the group any further toward consensus on specific protocol recommendations.

Meetings continued through the end of September 2008, by which time the WCI had developed and released its September 23<sup>rd</sup> framework report, "Design Recommendations for the WCI Regional Cap-and-Trade Program". The WCI framework report recognized forestry activities (specifically forestation, forest management, forest conservation, wood products and the avoided loss of forestland) as eligible for providing carbon offsets. The recognition is conditional on the development of specific protocols detailing how to measure each eligible activity to report the avoided or sequestered CO<sub>2</sub> that could be credited as an offset. The Oregon Governor's office attributed the inclusion of forestry activities as an eligible offset sector within the WCI in part to the work of the Oregon Forest Carbon Stakeholders Workgroup. Based on this initial success, the workgroup decided to suspend its activities until the Governor's Office, the Oregon Legislature and/or the WCI could establish a clearer sense of purpose and mandate.

A complete summary of the workgroup's activity during 2008 can be found on the Oregon Forest Carbon Workgroup webpage at: <http://egov.oregon.gov/ODF/climatechange/fewg.shtml>.

#### **NEXT STEPS**

The workgroup identified the need to review recommendations on eligible forest activities and protocols released in December 2008 by separate, but parallel stakeholder working group efforts, conducted in Washington and California. Staff is currently conducting the initial review of these efforts. The Oregon Governor's Office asked the Department to serve on the WCI Offset Committee for the specific purpose of bringing the range of the workgroup's perspectives to the WCI Offset Committee. The Department expects that the existing work arising out of the Washington, California and Oregon stakeholder efforts – along with emerging national efforts – on forest offsets will provide the starting point for continued work by the WCI. Staff will provide the Board an update of these efforts at the Board's June 2009 meeting and will provide the Board with options regarding possible Board action at that time.

#### **ATTACHMENT**

- 1) Core Members – Oregon Forest Carbon Stakeholders Workgroup