Carbon Markets Present a Moving Target

Forestry investments could provide significant emission-reduction benefits

California forestry companies can remove carbon dioxide from the air and must be encouraged to participate in emerging carbon markets.

California forestlands could sequester more carbon with the incentive of tradable carbon offsets.

By Eron Bloomgarden

Carbon markets have been on a bumpy ride recently, with emerging markets in the U.S. and California ebbing and flowing as prospects for climate policy have evolved.

The market is in a "pre-compliance" phase and carbon prices are closely linked with the likelihood of future cap-and-trade programs.

During the first half of 2009, prospects for comprehensive climate legislation were strong and the carbon market grew rapidly. Markets gained momentum as the Obama administration signaled its support for climate and energy legislation, and the U.S. House of Representatives passed the Waxman-Markey bill.

At the state level in early 2009, California moved forward with rulemaking and protocol development to support its legislatively mandated cap-and-trade system. A consortium of Northeast states launched its cap-and-trade program called RGGI, and states in the Midwest and Northwest began developing the foundation for their own regional programs.

This flurry of policy activity invigorated carbon markets. Registries were developed where companies planning to develop projects to lower carbon emissions could have those carbon benefits recognized, as were accounting procedures that could be used to measure changes in carbon stocks. Carbon prices and trading volumes spiked on the expectation of a future compliance market. In California, carbon offsets were selling north of $10 per ton. Carbon credits traded at more than $7 per ton on the Chicago Climate Exchange.

The picture today is quite different. Climate legislation has stalled in the Senate and even with the recent release of the American Power Act, prospects for federal policy remain uncertain. The U.S. Environmental Protection Agency has initiated regulatory action under the Clean Air Act, however it remains unclear whether they have the authority to include a carbon market. In California, implementation of AB 32, the state's landmark emissions-reduction bill that directs the establishment of a cap-and-trade system faces new challenges. This uncertainty has been reflected in softening prices and slowing carbon-market activity.

Storing carbon through forestry

Forestry is poised to play an important role in emerging carbon markets because of its potential to remove carbon dioxide from the atmosphere and store it permanently. Trees absorb carbon dioxide, release oxygen and store carbon as they grow, and forest management can accelerate growth rates, protect against wildfire and safely store carbon in wood products.

Forestry practices come with varying costs and sequestration results. It remains to be seen how much value will be generated by forestry that sequesters greater amounts of carbon or how practices that reduce emissions will be encouraged.

In California, standards for developing voluntary Forest Management projects have been developed by the Climate Action Reserve (CAR). CAR's predecessor, the California Climate Action Registry (CCAR) was created by the State of California in 2001 "to address climate change through voluntary calculation and public reporting of emissions." While CAR was created by the state, it is not a regulatory entity with authority to issue credits for AB 32 compliance – this authority rests with the California Air Resources Board (CARB).

The responsibility for developing protocols and approving projects for AB 32 compliance ultimately lies with CARB, which must establish a mandatory compliance framework by 2012. CARB has indicated they will use the protocols developed for voluntary markets by CAR, but it remains unclear how much of the current protocol will survive the transition from CAR to CARB.

A foundation to grow on

The protocols developed in California may become the basis for protocols at the federal level and will likely inform how much value forestland owners can realize by increasing carbon sequestration through sustainable forest management. Forest management projects in California have been delayed as CAR attempts to resolve a technical interpretation issue in its latest forest project protocol.

At issue is concern over language meant to ensure that only projects which result in greater carbon sequestration than required by law, a universally embraced goal, are eligible to receive offset credit. Under certain interpretation, provisions of California's Forest Practice Rules could preclude California forestland owners, and possibly only California forestland owners, from participating in carbon markets.

Such technicalities should be resolved quickly given the broad support for protocol language that would clarify the compliance requirements for carbon offset projects in California and ensure qualifying investments demonstrate carbon gains beyond legal requirements. California forestlands have considerable potential to sequester more carbon than they would without the incentive of tradable carbon offsets.

Carbon markets can provide an effective mechanism to reduce greenhouse gas emissions. For maximum emission-reduction benefit, the protocols that support those markets must recognize the sequestration benefits of sustainable forestry and encourage investment in California forestlands. ■

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