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Dear Bill:

This letter contains comments on the Background Issue Papers developed for the Agriculture and Forestry Voluntary Greenhouse Gas Reporting Workshops to be held this month. Although these ideas have been discussed among some of the participants in the National Carbon Offset Coalition, they represent my professional views and are not the official views of that or any other organization. I have tried to highlight the most important points.

Initially, I commend the USDA staff for the quality of these issue papers. They provide an excellent starting point for the discussions and decisions ahead. Before addressing the option questions raised in the papers, however, it may be useful to establish some general points about the 1605 system (a term I will use as shorthand for whatever voluntary reporting system emerges) and its future.

DOE should be challenged, and USDA should assist them, in establishing a clear set of definitions so that reporters are submitting reasonably similar reports. Some of the terms seem mundane, but if one studies the existing 1605 reports, it is clear that they are not being used in a consistent fashion. Examples include such terms as “practice,” “program,” “project,” and “sequestration,” among others. The worst example in the current reports is the term “project.” There’s no need to go into the details here, but suffice it to say that the 1605 report on the number of “projects” reported in past years is wildly off base.

I believe the following definitions could be useful for starters:

Project -- a planned effort to manage terrestrial carbon defined by specific spatial and temporal boundaries within which people take actions designed to achieve carbon sequestration and/or reduce carbon emissions.

Program -- A public policy-driven effort within which land owners or managers are encouraged to develop and take actions to increase carbon sequestration and/or reduce carbon emissions in appropriate situations.

Practice -- An action taken by people to change land management, land use, or land cover as a means of increasing carbon sequestration and/or reducing carbon emissions. Practices can be applied either singly or in combinations, within or outside project boundaries, and be the result of program incentives or unassisted private actions. For most practices in agriculture and forestry, research-derived models are available to estimate the sequestration and/or emission reduction effect under known environmental conditions.

Sequestration -- The process of increasing the carbon content of a carbon pool other than the atmosphere (IPCC Special Report on Land Use, Land Use Change and Forestry). (Note the implication here: This definition means that projects that protect existing carbon stocks such as the forest protection projects that dominate the current 1605 “sequestration” section are not sequestration projects at all. They are emission reduction projects. The importance of this comes in the discussion of whether or not the 1605 amounts are annual amounts of emission reduction or sequestration. If they are, as it appears they must be to be consistent across the full report, it is important to note that forest protection projects (and protection of agricultural soil carbon) will need special reporting guidelines.

Currently, those projects seem to report the full amount of carbon protected each year. If the annual reports are then added up, as they should be in the case of sequestration projects, the same carbon is counted multiple times. That should be avoided.) By the same token, fuel switching or carbon offset credits derived from burning biomass instead of fossil fuels are not sequestration projects and should have separate reporting rules and guidelines.

A new reporting system for agricultural and forestry carbon credits should be designed so that it will work in a technically accurate and functionally effective manner whether or not a market trading system emerges in the U.S. It should not attempt to be a trading system, or interfere in one, but it should also not preclude the emergence of a market system in the future. To meet that goal, it seems obvious that:

Carbon amounts reported in the system must meet two tests: 1) Validity; and 2) Ownership. The current issue paper focuses largely on validity, but ownership is not discussed. Somewhere, probably in the DOE general guidelines, that should be covered as well, for reasons as discussed below.

For agricultural and forestry carbon stocks, the initial ownership (and the permanent residence) of onsite carbon rests with the landowner. In a market trading system, however, the *right to claim those amounts of carbon as an environmental benefit* can be severed from the land and transferred to other owners. In current projects, this is done by some form of legal agreement, easement, or other legal document. The new owner is then able to sell or trade the value of those carbon credits as they would any other fungible asset.

For a registry to support a market trading system in the future, carbon credits that meet the tests of validity should be reported by the owner of record for the year involved. The registry should not attempt to facilitate or track sales or trades, since each annual report will be valid if only the owner of record is allowed to report credits. That way, credits reported by owner A in year X, but sold to owner B, will be reported by owner B in year X+1, and the registry will remain valid over time.

The current 1605 report contains a mixture of reports, some of which do not reflect legal ownership of the carbon credits reported. On that basis, some are tradable; many are not, so the current system would fail the test of supporting a market trading system.

The requirements for validity and ownership to support a market trading system do not preclude a 2-level reporting system. One could envision a “Grade A” carbon credit that met all the validity and ownership tests, and a “Grade B” credit that could be reported but which did not meet all necessary tests. If those were labeled by grade in the system, that should be acceptable. (Note that all the subsequent comments focus on the idea of a “Grade A” credit, because they go to the issue of credit validity.)

The following comments are directed at the issue paper contents and questions.

Page 9, Issue II A. Entity boundaries are a real problem with agricultural and forestry carbon credits, since it is doubtful that landowners will be the reporting entity in most cases. Their credits will be too few and have no value to them since the landowner will probably not be a regulated business. (One exception might be forest products companies.) Once the credits are severed from the land and sold or traded, they will be reported by the entity that owns them.

The issue not discussed is that **ag and forestry credits, to be reported as valid, should be tied to an identified spatial unit.** As noted above, if land is part of a carbon project, the project will be both spatially and temporally defined. Thus, there are two further options needed in this section:

1. Credits should be reported on an annual basis by the owner of record for that year; and,
2. Reporters of ag and forestry credits should be required to maintain data as to where those credits are located geographically. This is essential if credits are to be verifiable, an issue that will arise below.

Another issue raised in the text of the final paragraph on page 9, but not covered in the options under Issue II B, is the issue of “portfolio” reporting. **Portfolio reporting should be specifically allowed, with appropriate guidelines.** A portfolio is a group of carbon sequestration projects put together by an accumulating organization as a means of creating a large enough amount of carbon credits to be attractive in a market trading transaction. The rules should allow these accumulators (which could be cooperatives, RC&D areas, or special nonprofits such as

NCOC) to report those credits (while they owned them) in a “portfolio” report that would require only one filing with the reporting system. To meet validity requirements, the accumulator would be responsible for the fact that each project in the portfolio was valid and that the portfolio’s entire contents were verifiable. (Meaning they would be responsible for keeping the planning and monitoring records, data, reports, etc., needed to support an independent audit.) Once that portfolio was sold or traded, the new owner would report the portfolio credits on their annual report, but the **portfolio should be identified by name or some other identifier that would allow it to be traced back to the accumulator and, if need be, to the project level for verification.**

The implication here is that option ii, under IIB, suggests that only entities too small to report can be aggregated. Establishing minimum amounts for reporting is logical, **but projects of any size (reportable or not) should be eligible for aggregation and aggregated reporting** as discussed above.

Issue II C, page 10. **The system should not preclude the development of new guidelines, protocols and default values in the future.** The preferred option for “Grade A” credits is option i, with the possible addition of “verifiable” as a requirement. (“... and can be credibly monitored and verified.”) This would require development of accounting rules and guidelines for the most obvious practices and activities, but that list could grow over time as science develops and technology changes. “Grade B” credits could then be those estimated by default values and input measures, but not meeting the tests of stock change measurement and verification. It seems likely that many agricultural and forestry credits, particularly those done with cost-sharing or other public program incentives, could meet the Grade B requirements and contribute to the voluntary reporting system, but would not be valid for market trading as those requirements are now envisioned.

Issue III A, page 11. If reporting is annual, option i is impractical, since changes in soil or forest carbon cannot be measured annually. What is practical, however, is to **allow the annual reporting of model-derived “mean annual increments” or MAI of carbon sequestration for activities and/or projects.** The guidelines should require actual measurements on a periodic basis (5 years for forests; 10 years for soils ??) and provide a way for reporters to adjust past reports in cases where the measured amount (adjusted for annual increments) departs more than a specified amount (10% ??) from the reported amounts.

Estimates of uncertainty should not be required of reporters who follow the specific accounting rules, guidelines and protocols developed by USDA. Those should be developed in a manner that meets a desired target for uncertainty. Reporters should be allowed to develop improved methods of calculating carbon amounts, but in that case, should be required to provide uncertainty estimates.

Issue III B, page 12. **USDA should develop a few (2-3) approved methods of establishing baselines from which project developers and reporters could choose. The report should indicate which method had been used to estimate net project credits.**

Issue III C, page 13. **USDA should use option ii, and in addition, publish a “decision tree” that project developers and reporters could use to determine which, if any, other GHG’s they should include in their reports.**

Issue IV A, pages 13-14. **Virtually any of the approaches except option i could be feasible.** I think permanent easements are very problematic in terms of practical administration, however, and should be avoided. If reporters are required to report the annual sequestration amounts (MAI should be allowed) that they legitimately own, the reports will be accurate in light of sales and trades and will provide a legitimate annual equivalent to emission reductions. **Where a reporter loses previously-reported carbon through emission (rather than sale or trade), they should be required to report that loss as a negative amount for the year in which it occurred.** This should keep the system accurate over time, and meet the permanence test.

Issue IV B, page 14-15. **If leakage is clearly defined to result from a cause and effect relationship, it will cease to be an issue in most ag and forest carbon management activities.** Attempts to calculate leakage in the global sense may be intellectually inviting, but are not very practical. It is highly doubtful that one farmer doing anything causes another farmer to do something else. People make decisions in such a complex and changing economic, social, and environmental context that these analyses are more theoretical than useful. If possible, ignore leakage.

Issue V A, page 15. **The system should require that all reported (Grade A) credits be verifiable, and establish a minimum verification interval for projects (every 5 years ??).**

Issue V B, page 15. Independent verification methods are fairly well developed, and are becoming more and more standard. USDA should look to the forest certification programs such as the Sustainable Forestry Initiative, for examples of how these questions have been addressed. Certification of verifiers is being done under the American National Standards Association. **The reporting system should use these ongoing systems to the maximum possible extent, and avoid establishing new or duplicative requirements or processes.**

Issue VI A. When the reported amounts go into the system, are given a quality grade, and are publicly available in the system's data base, that should meet the needs for recognition. If DOE starts trying to send out certificates each year, the cost and administrative load will be enormous.

Issue VI B. If the system supports, but does not become involved in, a market trading system, DOE should stay completely out of the transfer process and let the annual reports reflect current ownership of reported credits.

Issue VI C. To be credible as a system supporting a market trading system, the summary data reported should be made public. Proprietary information used to calculate credits should remain private, but available to independent verification contractors (whose work is conducted under appropriate confidentiality agreements).

Issue VI D. Reporters will need to be allowed to revise prior year reports where measured amounts differ significantly from estimated MAI amounts (see above).

Issue VI E. The experience in the Sustainable Forestry Initiative suggests strongly that a periodic, scheduled, review and revision effort is superior to either an ad hoc revision process that creates too much uncertainty in the system, or a rigidly non-revised system that gets technically out of date but can't be changed. A 5 year review and revision schedule seems logical.

Forestry

For the most part, the ag and forestry issues are the same, and should be treated consistently in the reporting system. A couple of general issues are worth mentioning. Off-site sequestration in wood products and fossil offset credits are enough different from on-land sequestration credits that they should be handled with different reporting guidelines and protocols. Conserving existing carbon pools is not sequestration, but emissions reduction, and also should be handled with its own set of reporting guidelines.

USDA guidelines should avoid reinforcing the idea that carbon sequestration is achieved by avoiding timber harvesting. That comes from viewing forests from a single-stand basis, not from a forest management basis. On a forest management unit with many stands of varying age and structure, forest harvest removals are replaced by regeneration and growth in a sustainable system (most managed forests in N. America). In fact, where a forest management unit is managed in a sustainable way, the standing biomass on the forest may be virtually unchanged, and the **only carbon sequestration occurs in the buildup of harvested wood products**. In other instances, management can change and the standing forest biomass increase steadily for many years, resulting in on-site carbon sequestration, while average harvest levels rise as well. There are many documented instances of this. So don't get caught up in the idea that forests are managed as a one-stand system that is planted, grows, and then removed. That might be the case with one field, or one project, but it is not the case as we look at potential forest carbon dynamics over a large number of owners, projects, and areas as they respond to possible carbon management incentives.

I look forward to discussing these and other associated issues at the workshops, and hope I can provide a constructive input into the important process in which you are engaged.

Sincerely,



R. Neil Sampson
President