



## Western Forestry Leadership Coalition Issue Brief:

Aggregation of Forest Carbon Offsets:  
Issues and Opportunities for the West

April 10, 2008

This issue brief is intended to review the concept of a carbon aggregator and to stimulate dialogue on exploring opportunities to organize our collective interests to serve in such a role.

### **What is an Offset Aggregator?**

A forest carbon offset aggregator serves as the administrative representative on behalf of offset project owners (the landowner proposing and implementing the project) for multiple smaller offset projects (e.g., less than 10,000 metric tons of CO<sub>2</sub>e/yr), thereby, creating a larger pool of offsets for sale.<sup>1</sup>

The aggregator acts as the broker between the offset project owner and the purchasing entity—they manage registration, compliance, sales and are also the conduit for monitoring and verification. The aggregator works directly with both the market broker (such as the Chicago Climate Exchange) or purchasing entity and the offset provider.

This offset aggregator would need to be an entity with experience in forestry, measuring and monitoring, asset/portfolio management, project management, accounting, and market analysis.

### **What are the Potential Opportunities for Aggregating Forest Carbon Offsets?**

There is currently no federally-regulated comprehensive greenhouse gas emissions market in the US; however, many regional and state regulatory initiatives exist or are developing. There are a variety of opportunities in the voluntary carbon market for forestry offsets, but most of these are one-on-one deals with specific companies or credit buyers. Currently, the Chicago Climate Exchange (CCX) is the only legally-binding greenhouse gas emissions trading platform in the United States. This platform allows for the use of forest carbon offsets and registers offset aggregators.

An analysis of CCX offset aggregators showed that as of March 2008, there are 59 registered aggregators of offsets with the CCX.<sup>2</sup> Of these, many were international or focused specifically on energy reduction or methane projects. Thirteen companies specifically listed forestry as a focus. Of all 59, six were based in the western US, but many others claimed to do business throughout the US and other countries. Of the six based in the western US, one company, the National Carbon Offset Coalition, specifically addressed forest carbon on their website.

This analysis points to potential opportunities for western specific forestry offset aggregators. The farm community is well represented in terms of offset aggregators within CCX; there is no reason that the forestry community could not do the same. That said, there are pending policies and legislation that may dictate what types of projects, if any, could be considered in terms of forestry offsets in a more regulated market, outside of voluntary markets like CCX.

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<sup>1</sup> Chicago Climate Exchange website: <http://www.chicagoclimateexchange.com/>. Visited March 17, 2008.

<sup>2</sup> Ibid

The Western Climate Initiative and several regulatory-based bills introduced into Congress may have an impact on future opportunities for forest sector offset aggregators. It is anticipated, but still uncertain whether forestry offsets will be considered under these regulated schemes. Assuming regulation occurs, and forestry offsets are acceptable, companies will be allowed to purchase a certain amount of offsets to meet their cap requirements. This inevitably will create a demand for high-quality offsets. In addition, publicly-traded companies may find that shareholders are interested in seeing tangible offsets in their area and/or projects that have more benefits than just sequestered carbon—forestry projects are one of the few that can meet this demand. Forestry projects can produce a wide variety of ecosystem services and can provide a tangible place-based offset that companies can show to their shareholders.

Regardless of federal, state or regional legislation—forest carbon will continue to play a role in the voluntary market—it is just the volumes will most likely dictate whether there is a need for an aggregator.

### **Potential Challenges Facing Forest Carbon Offsets in the West**

The uncertainty in the marketplace over forestry offsets is real. There are concerns with temporal risks, additionality<sup>3</sup>, leakage<sup>4</sup> and permanence. In addition, many private forest landowners are not satisfied with working the definitions, expectations and baselines currently proposed in legislation and the marketplace. An aggregator will have to diligently research evolving requirements and communicate these with their offset providers. In addition, although the aggregator is the conduit for monitoring and verification, the landowner must also participate in this process. Liability issues arise when practices of the landowner do not meet the requirements of the verifying body, thereby impacting the aggregator's overall pool.

Another consideration is the variability of growth and risk potential for forests across the west. Interior West forests are most likely at a disadvantage in terms of being able to compete with coastal forests and eastern forests in terms of net carbon sequestered over time. Investors are not likely to invest in projects that require a longer timeline for the same product. In addition, the risk of wildland fire and the current insect epidemics may impact investor confidence in forestry offset projects in the west.

Much will be determined over the course of the next few years. Will there be a regulatory system in place for carbon? Will forestry activities be regulated? Will forest-sector offsets be permitted? What types of forestry projects might be allowed? What requirements will forestry offset projects face?

### **Conclusion**

In the absence of clear regulation and in the presence of an evolving voluntary carbon marketplace, the forestry community will need to become unified in its voice regarding the role of forest offsets. Does the WFLC membership want to look into playing an aggregator role and take advantage of the budding market? One estimate puts the fledgling Fuels for Schools program as having garnered \$350,000 in renewable energy credits. A forestry-specific offset aggregator for the western US is a specific niche that could prove valuable, if the interest in and forward trajectory of regulated and voluntary carbon markets continues.

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<sup>3</sup> Additionality is basically ensuring that the project is occurring or is producing greater carbon benefits as a result of the market, than it would have in the absence of this opportunity.

<sup>4</sup> Leakage refers to shifting of carbon emitting activities from within a project's boundaries to outside the offset project's boundaries.