CONSERVATION INNOVATION GRANTS

Final Report

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| Grantee Name: Mountain Association for Community Economic Development | |
| Project Title: Forest Opportunities Initiative | |
| Agreement Number: 69-3A75-9-143 | |
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| Period Covered by Report: 9/18/2009– 9/18/2011 FINAL REPORT | |
| Project End Date: 12/18/2011 | |

# PROJECT SUMMARY

The *Increasing Certified Forest Management in Central Appalachia Through Carbon Credit Offset Markets* project focused on demonstrating and evaluating the role carbon revenue can play as a market-based economic incentive that encourages sustainable forest practice at scale on private lands. It was an expansion of the Mountain Association for Community Economic Development's Forest Opportunities Initiative (FOI).

By providing education, financial assistance and new income options to low- to moderate-income private forest landowners, the FOI increases the economic value and ecological health of forests in Central Appalachia, improves landowners' understanding the benefits of sustainable forestry practices, encourages their commitment to those practices, and demonstrates the economic potential of carbon credit revenue to promote sustainable forestry in Central Appalachian working forests.

# PROJECT ACTIVITIES

The original revenue model for the carbon offset program was driven by the ability of well-managed forest lands to sequester atmospheric carbon for trade on the Chicago Climate Exchange (CCX). The CCX was built on a membership of large entities such as utility companies, state governments and for-profit businesses. Through a legally binding contract, each member committed to reducing greenhouse gas emissions for a long-term period and each had specific annual targets for emissions reductions. They were required to purchase offsets from the exchange for any emissions above their annual targets. As a result of CCX ownership changes, the lack of federal climate legislation, and an extended period of low prices on the exchange, the membership part of the CCX ended as previously scheduled on December 31, 2010. The CCX offsets division, including protocol development and maintenance and the forestry committee, will continue to function through the end of 2012.

Due to the reality of an immature market, we have increasingly focused efforts on developing our capacity to market offsets in the voluntary carbon market. Despite uncertainty in the carbon market, we have noticed a direct correlation between offset sales and landowner interest. Landowners are eager to enroll if they know there is a reliable market outlet for their offsets.

## SYSTEMS AND INFRASTRUCTURE

During the past two years, we have made significant improvements to our systems for tracking landowner interest and enrollment. These systems include a database and GIS. We have developed a website (www.appalachiancarbonpartnership.org), marketing materials, a landowner newsletter and presentations to attract landowners and interest potential offset buyers. Included in this final report are examples of our marketing materials and newsletter.

## Landowner enrollment

From the time a landowner first calls seeking information about the program to the time his/her offsets are verified, enrollment is a long process. Education is integral to this process, as many landowners are, for the first time, learning about management, certification, inventory, what a carbon offset is, and who would buy one. Obtaining all the enrollment requirements and submitting all the paperwork takes a lot of effort, time and money for landowners, and we are in direct communication with them throughout the entire process. Even without immediate carbon offset payments, by the time landowners obtain their certification and complete their inventory, many of them already feel they have received a great deal of value from the program.

## Market assessment and verification

The voluntary carbon market contains many different standards and registries, yet very few adequately address the largest landowner base in the country: non-industrial, private forest landowners. In Central Appalachia, these private landowners have an average tenure of seven years and an average land holding of 30–50 acres. Carbon standards that require 100-plus year contracts are not feasible for landowners in our region. When we started the program in 2007, the Chicago Climate Exchange (CCX) was at the forefront of the carbon market and had a much more reasonable, 15-year contract length for landowners.

The methodology we developed and had approved through the CCX forestry committee allows access for a broader landowner base and emphasizes the relationship between the landowner and their forester. Many other standards have specific management requirements to store carbon, deemphasizing the role of the forester in working with the landowner to develop a specific management plan for their property. These standards create limitations on who can participate in the carbon market.

The standard that aligns the best with our current program is the Verified Carbon Standard (VCS). Unfortunately, the VCS has yet to fully approve a methodology that fits our landowner base and regional management issues. This means that we will have to write our own methodology for VCS, which will then have to go through a double validation process. At the end of this process, we may or may not be validated. This process can cost anywhere from $50,000–$100,000. And because we are still in a voluntary market, there is no guarantee that there will be a reliable market outlet for these credits.

This looks like the path with the most potential for expanding the program's success and keeping it verified and credible. In the meantime, the CCX required that we verify our 2010 offsets, which we are in the process of completing. Once that is finished we will begin taking concrete steps towards moving to VCS.

## Sales

During the last two years, we generated $116,827 in sales for 19,294 forest carbon offsets. We paid $91,758 to landowners and will distribute more funds generated by carbon sales at the end of the year.

Our customers range from individuals and small businesses to foundations and large companies. During the last year, we have worked on expanding our capacity to market directly to the corporate social responsibility, nonprofit, small business and individual segments based on a set of criteria such as ability to buy at scale, connection to MACED, our partners or the Appalachian region, interest in sustainability, demonstrated offsetting or greenhouse gas accounting and triple bottom line values. We continue to implement our marketing plans and build relationships with potential customers to increase sales and keep landowners enrolling.

## Partner Activities

### *Appalachian Sustainable Development (ASD)*

ASD has worked diligently to table at events, make presentations and connect directly with landowners to stimulate enrollment in southwest Virginia. After two years, they are getting closer to signing up their first landowner. They feel that with their forester on staff conducting the inventory and developing the management plan for the interested landowner, they will be able to overcome the major barrier for landowner enrollment in the area: not enough consulting foresters willing to do the inventory work for a reasonable fee.

### *National Network of Forest Practitioners (NNFP)*

NNFP signed a contract with MACED in March to do landowner outreach in Tennessee. They have been tabling at events, talking with landowners within their network, and making presentations about the program. Sixteen landowners have shown interest in that area so far.

### *Rural Action (RA)*

RA continues to do presentations and table at conferences and events to spread awareness about the program and get landowners interested. Although they have not enrolled any landowners to date, they recently hired a marketing consultant to help sell carbon offsets locally thinking that demonstrated sales will stimulate landowner enrollment. They have calculated their own emissions internally and will offset those emissions with Appalachian Forest Offsets.

# Funding received and expended

The total project cost was $1,000,0000. MACED received $500,000 from NRCS and $500,000 from other sources. Please reference Federal Financial Form 425 at the end of this report.

# Results

- Metric tons of CO2 sold: 19,294
- Dollars paid to landowners: $91, 758
- Dollars paid to consulting foresters: $300,000 (estimate based on $9/acre charged to the landowner for the carbon inventory)

**Project Indicators and Goals**

| ***Indicator*** | ***Goal*** | ***Actual Results*** | ***% Complete*** |
|---|---|---|---|
| Total new acres enrolled | 80,000 | 13,431 | 16.8% |
| Number of enrolled landowners | 80 | 20 | 25% |
| New acres certified | 50,000 | 14,103 | 28.2% |

# Potential for Transferability of Results

The project is very transferrable to other regions in the United States and potentially worldwide. The methodology for calculating emissions and the systems and infrastructures put in place to track data and manage landowner enrollment work efficiently and effectively and can be easily replicated. The major barrier for transferability is the viability of the carbon market and the ability to get these methodologies validated through other carbon offset standards.

The lack of climate legislation will prevent the U.S. carbon market from maturing, however the voluntary market has potential and continues to grow (Ecosystem Marketplace, *State of the Voluntary Carbon Markets 2011).* Being competitive in this voluntary market depends largely on the standard used, such as the Verified Carbon Standard (VCS), Climate Action Reserve (CAR), American Carbon Registry (ACR), or the Chicago Climate Exchange—which we have shown through this program to be difficult to sell as it is phasing out.

The viability of a program like this that focuses on small landowners and that also must market offsets directly in the voluntary market is uncertain, as both landowner enrollment and relationship-based carbon offset sales require a great deal of time and effort for the results gained. If a methodology for small landowners can be approved through the major standards—VCS, CAR or ACR—there is great potential to move more acreage to sustainable management through carbon offset incentives.

# Conclusion

Considering the economic downturn, lack of climate legislation, and the efforts of many of our competitors, this project has been extremely successful. Since 2007, we have enrolled a total of 43 landowners with more than 25,000 acres in eastern Kentucky and southwest Virginia. Of those 25,000 acres, we enrolled 13,431 new acres during the grant period alone.

With appropriate market incentives, landowners will choose to manage their land for the long term. MACED's goal right now is to test out the voluntary carbon market's ability to absorb enough offsets to keep landowners enrolling until we can go to scale when the market matures through regulation or we are able to move to a more international market through VCS.

# Addendum

## Provide the following in accordance with the Environmental Quality Incentives Program (EQIP) and CIG grant agreement provisions:

No federal funds were used to pay EQIP eligible producers participating in the carbon program.