

May 18, 2009

The Honorable Henry Waxman Chairman, Committee on Energy and Commerce U.S. House of Representatives Washington, D.C.	The Honorable Joe Barton Ranking Member, Committee on Energy and Commerce U.S. House of Representatives Washington, D.C.
The Honorable Edward Markey Chairman, Subcommittee on Energy and Environment Committee on Energy and Commerce U.S. House of Representatives Washington, D.C.	The Honorable Fred Upton Ranking Member, Subcommittee on Energy and Environment Committee on Energy and Commerce U.S. House of Representatives Washington, D.C.

Re: American Clean Energy and Security Act of 2009

Dear Chairman Waxman, Ranking Member Barton, Subcommittee Chairman Markey,
and Subcommittee Ranking Member Upton:

Our organizations greatly appreciate your efforts to consider climate change legislation, including the meaningful adjustments that you have made in the new draft legislation. Achieving targeted reductions of greenhouse gas emissions during a time of economic hardship will be a major challenge. For this reason, any climate change policy created by Congress has to be smart, efficient, practical, and effective.

We write today to explain why we believe that a robust domestic offsets program must be a central element of any such policy, and why further adjustments to the draft legislation would help achieve this end. To avoid excessive administrative complexity and cost, the emissions cap in any cap-and-trade program can only cover large sources of emissions. Within the uncapped sectors of the U.S. economy, however, there are cost-effective opportunities to reduce, destroy, avoid, and sequester greenhouse gas emissions. These opportunities can take the form of offset projects. We urge you to ensure that federal climate legislation takes full advantage of the tangible benefits offsets can offer for farmers, ranchers, forest landowners, American consumers, local ecosystems, and the global climate.

Greenhouse gas emissions can often be reduced more inexpensively and more quickly through offset projects. By using offset credits, capped entities such as power plants, refineries, and factories can meet an emissions cap at far lower cost. Those cost savings will be passed on to American consumers, reducing the cost of climate change mitigation to society. EPA's analysis of the Lieberman/Warner cap-and-trade bill of 2008 found

that if the program allowed no use of offsets, its costs would increase by 93%; if the program had allowed unlimited use of offsets, costs would have decreased by 71%. We believe a vigorous offset system is equally important to achieving the dual goals of reducing greenhouse gases while achieving cost containment for industry and consumers.

Furthermore, offsets allow the U.S. agriculture and forestry sectors to be part of the solution to climate change. In this way, offsets can help farmers, ranchers, and forest landowners reduce the burdens that they will bear from climate policy – including higher energy costs and higher costs for inputs – and keep America’s working lands and people working to produce our agricultural and forest products.

There are numerous opportunities for offset projects in the U.S. agriculture and forestry sectors. A grain farmer in Iowa could increase the carbon sequestered in his soils by planting winter cover crops. A dairy farmer in California could put a cover on her manure lagoon, capture the methane emissions, and burn the methane as an energy source – all while reducing emissions of a highly potent greenhouse gas. A small forest owner in Georgia could increase the carbon stored in his forest and forest products through new forest management strategies and harvest techniques. A rancher in New Mexico could adopt a rotational grazing system and increase soil carbon storage. A private landowner in New York could convert unused fields to forest, thereby sequestering carbon. Through these kinds of activities and many more, America’s farmers, ranchers, and forest landowners can and should be a part of the effort to address climate change and reduce our greenhouse gas emissions.

Offset projects also can generate jobs, new revenue streams, and valuable environmental co-benefits. More efficient use of manure and nitrogen fertilizers by farmers not only reduces nitrous oxide emissions, but also improves water quality and the health of local aquatic ecosystems. The conversion of marginal agricultural lands to grassland, wetland, and forest will fortify local ecosystems and ecosystem services. Forest management changes can help increase the health, resilience, and ecological value of a forest. To be sure, not every agriculture and forestry project can achieve such co-benefits, nor should such benefits be required, but the fact that many projects can yield these benefits is another important reason to support the inclusion of a robust offsets program.

For all of these reasons – because offsets will reduce costs, improve efficiency, generate economic growth and green jobs, improve local ecosystems and ecosystem services, and act as a bridge to a low-carbon future – we urge you to construct a vibrant offsets program within the cap-and-trade program and ensure it is operational from the outset. In order to ensure that the offsets program is smart, efficient, practical, and effective, we urge you to keep the following principles in mind:

- *Offsets should meet rigorous standards for environmental integrity.* To earn credits, offset projects should meet appropriate environmental safeguards that ensure equivalent reductions or sequestration of emissions. The offsets program should also appropriately and reasonably account for potential reversals of sequestration projects, while making distinctions between intentional and

- unintentional reversals. As long as offsets meet rigorous environmental tests, offset credits should be available for use at a level that enables our economy to fully realize the significant and essential cost-containment offsets can offer.
- *Offsets should be not subject to arbitrary devaluations.* If an offset project meets rigorous environmental integrity standards, then we have assurances that the reductions or sequestration achieved are real and implementing the project will reduce, eliminate, or sequester the GHGs identified. A farmer, rancher, or forest landowner who has developed such a project should receive the full value of the emission reduction or sequestration. Only true prices will ensure that landowners have the proper incentive to reduce or sequester emissions and are appropriately rewarded for doing so.
 - *Program design should ensure sufficient offset availability in early years.* It is particularly critical that offsets be available during the early years of the cap-and-trade program in order to: (1) reduce potential emission allowance price volatility; (2) lower compliance costs; (3) facilitate the transition to a low-carbon energy infrastructure; and (4) incentivize non-capped sectors to take early action. To this end, legislation must give offset project developers as much early guidance and certainty as possible so they can attract investment and develop projects in time for the first compliance periods. To ensure a prompt start, climate legislation should include: (1) an initial list of project types that will be eligible for participation in the federal offsets program; (2) the expedited development of federal offset methodologies for the listed project types; (3) a means for projects registered under other programs to apply for federal offset credits, and (4) defined offset project crediting periods of sufficient length to provide investment certainty. We encourage Congress to give the respective agencies direction at the earliest moment to start developing offset protocols, even prior to enactment of cap and trade legislation.
 - *Early action offset projects should be rewarded.* In anticipation of federal climate change legislation, offset project developers have been producing emission reductions in the U.S. for a number of years. These early projects have been critical to the development of U.S. offset markets and have produced significant emission reductions that can help bolster offset supply in the early years of a federal cap and trade program. These reductions should be recognized and accepted through the federal program, provided that early action offset projects are verified under programs that meet the same environmental integrity criteria established through federal legislation.
 - *The U.S. Department of Agriculture has critical expertise pertaining to agriculture and forest offset markets.* We appreciate that the specific role of the USDA in offset markets goes beyond the jurisdiction of this committee. We believe the USDA has critical expertise to bring to the development of methodologies and processes for crediting offset projects in the agriculture and forestry sector. Indeed, Congress already recognized such a role for the USDA in

last year's Farm Bill. Section 2709 of the Food, Conservation, and Energy Act of 2008 directed the USDA to establish technical guidelines to measure the environmental services benefits from conservation and land management activities – and to “give priority” to the establishment of guidelines related to “farmer, rancher, and forest landowner participation in carbon markets.”

Domestic offsets will tap the power of market-based incentives, putting America to work on the job of reducing greenhouse gases. Wherever possible, federal climate legislation should tap into this power and the significant cost-containment it can offer in our efforts to address climate change.

We appreciate your dedicated work on climate change legislation, and on the offset provisions in particular. We hope you will keep the above principles in mind as you continue to shape your legislation, and look forward to working with you in the future to ensure that America's farmers, ranchers, and forest landowners can play a central role in the low-carbon, clean-energy economy of the future.

Sincerely,

Agricultural Carbon Market Working Group
American Bird Conservancy
American Forest & Paper Association
American Forest Foundation
American Forests
Binational Softwood Lumber Council
C2I, LLC
California Forestry Association
Coalition for Emission Reduction Projects
American Electric Power
Blue Source
C-Quest Capital
Camco Global
Deutsche Bank
Dominion
DTE Energy Company
Duke Energy
EcoSecurities
Element Markets
El Paso Corporation
Environmental Credit Corporation
Equator, LLC
John Deere
Leaf Clean Energy Company
Natsource LLC
Noble Carbon Credits
MGM International

PG&E Corporation
Stark Investments
First Environment
Forest Capital Partners
Forest Guild
Hardwood Federation
Maine Forest Service
National Alliance of Forest Owners
National Association of Conservation Districts
National Association of State Foresters
New Forests
Plum Creek
Society of American Foresters
The Trust for Public Land
Weyerhaeuser Company

cc: Hon. Nancy Pelosi, Speaker of the House
Hon. Steny Hoyer, House Majority Leader
Members of the Energy and Commerce Committee

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