American Forest Foundation

August 8, 2022

Christopher J. Kirkpatrick
Secretary of the Commission
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, NW
Washington, DC 20581

RE: Request for Information on Climate-Related Financial Risk

Dear Mr. Kirkpatrick:

The American Forest Foundation appreciates the opportunity to provide formal comments on the Commodity Futures Trading Commission's efforts around climate-related financial risk and voluntary carbon markets. AFF is a national 501c3 conservation organization that works to empower family forest owners to make a meaningful conservation impact on their land.

Forests across the United States currently reduce overall U.S. greenhouse gas emissions by roughly 12 percent each year. Studies show that this number could be more than doubled with the right actions. Families and individuals collectively own the largest portion of America's forests, making them essential players in the fight against climate change. Carbon markets can help forest owners finance practices that improve forest health and address climate change. But historically, these markets have only been accessible to forest owners who own several thousand acres or more. This is mostly due to high upfront costs needed for carbon inventories, program complexity and 100-year contracts, preventing forest owners with smaller acreages from getting involved.

AFF works to break down these barriers to entry for small landowners, empowering this previously untapped resource to contribute to a global climate solution. To realize the success of efforts like these and ensure this work is done truly in service to legitimate, additional climate mitigation, the U.S. government can and should act in support expanding and strengthening existing voluntary carbon markets.

Voluntary carbon markets provide carbon project developers and leaders in corporate sustainability a global exchange that values interventions that sequester and store greenhouse gases, investing billions of dollars in private climate finance to secure long-term corporate operations and reduce the catastrophic effects of climate change. These markets have grown into a powerful international tool to promote robust climate finance, and it would behoove the U.S. government to support and empower its continued growth and development rather than establish competing or conflicting domestic marketplaces. The U.S. can do this in several ways:

- Instill certainty. Government intervention through a federal carbon floor price and buyer of last resort agreements gives developers critical financial information necessary for sustaining carbon offset projects and provides confidence for both landowners and investors to engage in climate smart actions. Similarly, further confidence cannot be achieved without the U.S. defining its regulatory scheme around our Nationally Determined Contribution (NDC) under the Paris Climate Agreement, capitalizing on and incorporating the existing structure of the voluntary market as a distinct tool rather than folding in these sectors under the NDC plan.

- Legitimize existing institutions. The U.S. can publicly support the existing voluntary carbon market infrastructure, including existing registries and verification bodies. The government can also ensure that access to these markets and the exchange of any carbon claim require some level of verification to reduce any potential double counting.

- Support standards for quality. Global initiatives are underway to ensure the integrity and credibility of claims made in these markets and the U.S. can be a leading voice in support of codifying these criteria as minimum standards to entry. Indeed, this requires a two-way assessment of the marketplace: the legitimacy of the claims being made by suppliers and the sustainability context buyers use to report these claims.

- Secure inclusive access to markets. One of the most significant barriers to voluntary carbon market access for project developers of high-quality claims is financing. The U.S. can play a leading role in catalyzing innovative, high-quality projects by providing direct financing, concessionary capital or credit enhancement to access mainstream, Wall Street investors, unlocking billions more in support of climate-smart operations. Credit enhancement, in particular, can come in a number of different forms, including loan or bond guarantees to ensure favorable, investment grade ratings.

In addition to the above comments, AFF offers the following answers to the questions posed on voluntary carbon markets in the Commission's Request for Information.

22. Are there ways in which the Commission could enhance the integrity of voluntary carbon markets and foster transparency, fairness, and liquidity in those markets?

The Commission should adopt the frameworks of the Integrity Council for the Voluntary Carbon Market and the Voluntary Carbon Markets Integrity initiative. Both organizations are working in earnest towards the same goals of integrity, transparency, fairness, and liquidity. VCMI is currently developing and communicating guidance on how carbon credits can be voluntarily used and claimed by businesses and others as part of credible, net zero decarbonization strategies. VCMI has recently released for public comment its provisional Claims Code of Practice on credible voluntary use of carbon credits by companies and other nonstate actors and associated public claims. IC-VCM will release its set of Core Carbon Principles and Assessment Framework by the end of the year that will set new threshold standards for high-quality carbon credits, provide guidance on how to apply the Core Carbon Principles, and define which carbon-crediting programs and methodology types are eligible under the Core Carbon Principles.

23. Are there aspects of the voluntary carbon markets that are susceptible to fraud and manipulation and/or merit enhanced Commission oversight?

AFF believes that the Commission could provide oversight – through the lens of appropriate global standards – to monitor integrity and use of carbon credits. From the supply side, it is important to understand and evaluate the types of carbon credits entering the voluntary carbon market. Upholding a standard of integrity within the supply of credits offered will provide actors more confidence in the voluntary carbon market. From the demand side, it is important to understand and define the claims that purchasers of credits can make from their transactions.

Voluntary carbon markets have also been susceptible to issues relating to additionality. Projects that were not under threat of conversion have issued carbon credits to the market casting a spotlight on the market overall as it relates to meeting the additionality requirement. The other issue is that of permanence where projects maintain that carbon mitigated will remain in that state for forty years or more. Various approaches attempt to meet the permanence requirements, but there is no uniform oversight ensuring that integrity is maintained. This lack in uniformity means that carbon credits of lesser-quality projects may enter the marketplaces and jeopardize the overall integrity of the voluntary carbon markets. In turn, corporations seeking to purchase offsets to reach their corporate sustainability goals may make inaccurate or less accurate claims depending on the quality of carbon credit they purchase, particularly if the project they purchase from does not hold as credible claims to additionality and permanence as others.

Additionally, as the world moves towards alignment under the Paris Agreement and particularly Article 6 that permits the exchange of ITMOs (internationally transferrable mitigation outcomes) between signatory countries, the Commission will want to monitor the mechanisms that prevent double counting under any Corresponding Adjustments framework that impact the voluntary carbon market.

24. Should the Commission consider creating some form of registration framework for any market participants within the voluntary carbon markets to enhance the integrity of the voluntary carbon markets? If so, what would a registration framework entail?

AFF believes that the Commission should either create or reference a registration framework only if it recognizes approved global carbon registry standards and associated carbon methodologies against a set of integrity criteria that gives the market confidence on the carbon instruments being created and traded. A registration or certification process to legitimize developers is critical at a time when there are many new developers emerging from the woodwork. Unfortunately, it is hard to tell who is legitimate and who is not. Should the Commission proceed with a registration framework it is critical that the process for participant registration is not overly burdensome as adding undue bureaucracy would slow the pace of innovation.

We again offer our gratitude for the Commission allowing us provide feedback on the state of voluntary carbon markets as well as for its consideration of these comments. If you have any questions, please do not hesitate to reach out to Michael Reed at mreed@forestfoundation.org.

Sincerely,

American Forest Foundation