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October 7, 2022

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

**Re: Request for Information on Climate-Related Financial Risk 87 Fed. Reg. 34856
(June 8, 2022), Document Number 2022-12302**

Dear Mr. Kirkpatrick:

The National Alliance of Forest Owners appreciates the opportunity to submit the following comments on the *Request for Information (RFI) on Climate-Related Financial Risk*, 87 Fed. Reg. 34856 (July 21, 2022), published by the Commodity Futures Trading Commission (“Commission”).

The National Alliance of Forest Owners (NAFO) is a national advocacy organization advancing federal policies that ensure private working forests provide clean air, clean water, wildlife habitat, and jobs through sustainable practices and strong markets. NAFO member companies own and manage more than 46 million acres of private working forests, of which a portion are enrolled in voluntary and compliance carbon markets. Private working forests are a critical nature-based solution to many of our most pressing environmental and climate challenges.

Introduction

The U.S. is a global leader in modern forestry, practicing some of the highest standards for sustainable forest management in the world.¹ Private forest owners are at the forefront of sustainable forestry in the U.S., deeply rooted in a culture of long-term stewardship, continuous learning, and American innovation. Today, the U.S. enjoys some of the most abundant forest resources in the world,² mainly as a result of private forestry’s commitment to sustainability and widespread implementation of modern sustainable forest management practices.

More than one-third of the U.S. is covered by forests, and 47% of U.S. forests are private working forests owned by families, businesses, and investors.³ These forests are sustainably managed to supply a steady, renewable supply of domestically-grown wood for lumber, energy, paper, and packaging, providing more than 5,000 items that consumers use every day. A portion of these acres are enrolled in carbon offset contracts in both compliance and voluntary

¹ Cf. Southern Group of State Foresters (SGSF), “SGSF Forest Certification Programs: Status and Recommendations in the South. 2021 Report Update,” 2021.

² U.S. Forest Service (USFS), 2020 Resources Planning Act Assessment, <https://www.fs.usda.gov/research/inventory/rpaa/2020>, accessed August 18, 2022.

³ Oswald, Sonja N.; Smith, W. Brad; Miles, Patrick D.; Pugh, Scott A., coords.; “Forest Resources of the United States, 2017: a technical document supporting the Forest Service 2020 RPA Assessment.” Gen. Tech. Rep. WO-97. Washington, DC: USFS, 2019, <https://doi.org/10.2737/WO-GTR-97>, p. 233.

markets. Private working forests support 2.5 million well-paying American jobs, mainly in rural communities.⁴

Approximately 90% of the timber harvest for domestic wood and fiber used to make forest products in the U.S. comes from private working forests. At the same time, these forests account for 80% of net forest carbon sequestration, removing more carbon from the atmosphere than is emitted by all passenger vehicles in the U.S. each year.⁵ Private working forests in the U.S. also store nearly half of the carbon stored in all U.S. forests combined.

These carbon benefits extend to the built environment through long-lived solid wood products. Because wood is 50% stored carbon by weight, long-lived wood products also store vast amounts of carbon. Each year, U.S. wood products add nearly 100 million metric tons of CO₂e to the nearly 9.8 billion tons of CO₂e stored in wood products carbon storage pools, or nearly three times the carbon stored in all national parks combined. Advanced engineered wood products, like mass timber, present an enormous opportunity to lower the embodied carbon footprint in the built environment, as demonstrated by whole building lifecycle analyses (LCA). Innovative emerging forest products, including bio-based materials, biofuels, and other products that displace petroleum- or fossil-based alternatives also have significant potential to further extend the carbon benefits of managed forests.

Information about the climate effects of forests and forest products, and source references for the above statistics, can be found at [ForestCarbonDataViz.org](https://forestcarbondataviz.org), a visualization of government data created by NAFO.

The United Nations Intergovernmental Panel on Climate Change recognizes that working forests play a key role in global efforts to reduce and mitigate carbon emissions. Climate mitigation from our nation's working forests includes two important elements: forest carbon sequestration and storage, and the carbon benefits from long-lived wood products. Together, sustainably managed working forests and the forest products they produce are already one of our nation's greatest assets for achieving our climate goals: U.S. forests and forest products offset 15% of U.S. industrial carbon emissions every year.⁶

Comments

Strong forest product markets are the economic force behind our nation's private working forests and the many public benefits they provide, including climate mitigation. At the same time, new carbon mitigation opportunities are creating options for private working forest owners to increase the climate benefits of their lands and harvests. Among these, voluntary forest carbon markets have the potential to scale natural climate solutions and the associated financial benefits to forest landowners. While there are compliance carbon markets in places like California, these comments focus on voluntary markets.

Voluntary markets give businesses, organizations, and individuals the opportunity to purchase carbon offsets to support a range of objectives. A carbon offset is a measurable reduction,

⁴ Forest2Market, "The Economic Impact of Privately-Owned Forests in the 32 Major Forested States," https://nafoalliance.org/wp-content/uploads/2018/11/Forest2Market_Economic_Impact_of_PrivatelyOwned_Forests_April2019.pdf#page=9, 2019.

⁵Oswalt et al, p. 223.

⁶ Janowiak, M.; Connelly, W.J.; Dante-Wood, K.; Domke, G.; M.; Giardina, C.; Kayler, Z.; Marcinkowski, K.; Ontl, T.; Rodriguez-Franco, C.; Swanston, C.; Woodall, C.W.; Buford, M. "Considering Forest and Grassland Carbon in Land Management," Gen. Tech. Rep. WO-95, Washington, D.C.: USFS, 2017, p.68.

avoidance, or sequestration of greenhouse gas (GHG) emissions used to counter (i.e., offset) GHG emissions generated at another location. A carbon credit is the value of that offset, which can be sold or traded. Carbon offsets may be measured and valued in terms of broad metrics, including additionality, leakage, permanence, and verification. Protocols are specific to individual GHG mitigation practices, and they standardize the measuring, reporting, and verification (MRV) requirements for generating carbon offsets.

Voluntary markets were created in the mid-1990s but have started growing exponentially in the past five years. As they have matured, so have the technology and protocols to accurately track carbon with credible outcomes. As companies work towards their commitments to reduce emissions, they need to use an all-of-the-above approach. Offsets are a way to lower emissions when they cannot yet be reduced or eliminated in other ways. Offsets also play a critical role in financing forest restoration, protection, and sustainable management – three of the most cost-effective natural climate solutions.⁷

Regarding the Commission’s specific questions on voluntary carbon markets (listed below), NAFO does not take a position on whether the Commission or other federal agencies should take specific actions. Rather, we identify gaps related to each question that should be addressed.

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?

NAFO members share the Commission’s interest in fostering transparency, fairness, and liquidity in voluntary carbon markets. These characteristics are critical to growing both the markets themselves and the real carbon benefits they provide.

The federal government has an opportunity to highlight best practices in voluntary carbon markets. These best practices exist (see more under Question 23 below) but due to rapidly growing interest in the sector, there are many newcomers – offset producers and offset purchasers alike – who need guidance on what they are and where they can be found.

Carbon registries (also called “carbon credit programs”) are a good example of best practices. They have strict requirements for determining the credibility carbon offsets and engage in continuous improvement to strengthen those requirements based on new science and information. Robust carbon registries in the U.S. include (but are not limited to) the American Carbon Registry (ACR), Climate Action Reserve (CAR), and Verra.

To provide climate value, offsets must be:

- Real, meaning they represent an actual net reduction in atmospheric carbon, and do not experience material leakage (reductions in sequestration or storage elsewhere) ;
- Additional, meaning they increase carbon sequestration and storage;
- Permanent, meaning the carbon is stored for an appropriate duration and there are adequate safeguards to address potential reversals;
- Measured according to an appropriate methodology;
- Verified by an independent third party to ensure it meets all necessary criteria, and removals are properly quantified and accounted for; and

⁷ Griscom BW, et al. Natural climate solutions. Proc Natl Acad Sci U S A. 2017 Oct 31; 114(44): 11645-11650.

- Unique, taking safeguards to prevent double counting of removals.

Once verified, a carbon offset may be registered with a carbon registry and sold to a purchaser (e.g., private company or individual) in compliance or voluntary carbon markets. Carbon registries – such as Verra, ACR, and CAR – track the ownership of carbon offset projects and issue offset credits for verified and certified units of emission reductions or removal. Carbon registries establish general rules and requirements for certifying carbon offsets; serve as accreditors of third-party verifiers of carbon offset projects; and develop and approve carbon offset protocols.

Any action by the Commission should advance credit integrity through the credits issued by reputable carbon registries or crediting programs that follow the requirements established under ISO 14064 on “Specification with guidance at the project level for quantification, monitoring, and reporting of greenhouse gas emission reductions or removal enhancements” and ISO 14065 on “General principles and requirements for bodies validating and verifying environmental information.”

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

Voluntary carbon markets only work when producers are providing true additionality and consumers have confidence in the removals they purchase. Some measures to ensure a transparent and fair marketplace already exist and can be strengthened or improved. They include:

1. Securing IT systems to prevent cyber attacks;
2. Ensuring the right number of credits are issued through third-party auditing, including auditing of documentation;
3. Ensuring strict controls over who can access registry accounts;
4. Transparent public consultations and regular reviews of projects and monitoring reports to reduce risk of manipulation; and
5. Unique credit and client identifiers to minimize fraud risk.

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?

Any framework developed by the Commission to enhance voluntary carbon market integrity should rely on existing registries that already establish market integrity. **Any framework selected should recognize and value the contributions of nature-based carbon credits.**⁸ Robust carbon registries including, but not limited to, ACR, CAR, and Verra exist in the United States already. There are also efforts to coordinate at the international level through the Voluntary Carbon Markets Integrity Initiative (VCMI). Internationally, many of these GHG crediting programs are accredited through the International Carbon Reduction and Offset

⁸ Some frameworks, such as the International Council on Voluntary Carbon Markets, have additionality and permanence requirements that do not recognize nature-based carbon credits. These frameworks should be avoided in favor of those that create a level playing field for all credible carbon credits, including nature-based credits.

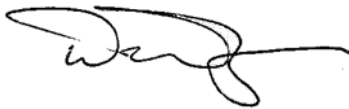
Alliance (ICROA). At a sector level, robust initiatives such as Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA) through the United Nations airline body, ICAO, create truly international platforms for producing, selling, and trading carbon credits.

The international coordinating bodies listed above are working to create standards that align country- or state-specific carbon standards globally for efficient carbon offset trading. There is also a benefit to the Commission from this international fungibility, since it means the Commission will have an easier time comparing credits.

Conclusion

NAFO appreciates the opportunity to submit comments on this important topic. Our members support efforts to increase integrity and transparency in voluntary carbon offset space to ensure offsets result in real climate benefits. Please don't hesitate to contact Anne Clawson with any questions at AClawson@nafoalliance.org.

Respectfully,



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