



AMERICAN
WOOD COUNCIL

February 16, 2024

**Submitted Electronically
RIN 3038-AF40**

Rostin Behnam
Chairman
Commodity Futures Trading Commission
1155 21st Street NW
Washington, DC 20581

**Re: *Commission Guidance Regarding the Listing of Voluntary Carbon Credit
Derivative Contracts (RIN 3038-AF40)***

Dear Chairman Behnam:

The National Alliance of Forest Owners (“NAFO”) and the American Wood Council (“AWC”) appreciate the opportunity to submit the following comments to the Commodity Futures Trading Commission (“CFTC” or the “Commission”) on the proposed guidance regarding the listing for trading of voluntary carbon credit (“VCC”) derivative contracts.

NAFO is a national advocacy organization advancing federal policies that ensure private working forests provide clean air, clean water, wildlife habitat, recreation, and jobs through sustainable practices and strong markets. NAFO member companies own and manage more than 44 million acres of private working forests across the U.S. Through sustainable forest management, these private working forests support millions of American jobs and contribute billions of dollars to rural economies.

AWC is the voice of North American wood products manufacturing, an industry that provides over 450,000 men and women in the United States with family-wage jobs. AWC represents 86 percent of the structural wood products industry. AWC members make products that are essential to everyday life that are derived from a renewable resource that absorbs and sequesters carbon for many decades. AWC staff experts develop state-of-the-art engineering data, technology, and standards for wood products to ensure their safe and efficient design, as well as provide information on wood design, green building, and environmental regulations. AWC also advocates for balanced government policies that affect wood products.

ENVIRONMENTAL AND ECONOMIC BENEFITS OF PRIVATE WORKING FORESTS

More than one-third of the United States is covered by forests, and 47% of U.S. forests, approximately 360 million acres, are private working forests owned by families, small and large businesses, and Americans who invest in working forests. Private working

forests are a critical nature-based solution to many of our most pressing environmental challenges.

Private forest owners¹ have a long and successful track record of managing forests for long-term productivity, providing important benefits for air, climate, and water quality, wildlife habitat, recreation, and rural economies while simultaneously enhancing resistance to insects, disease, catastrophic wildfire, and other natural disturbances.

Forest owners nationwide are also engaging in successful voluntary conservation efforts, such as the [Wildlife Conservation Initiative](#) (“WCI”), a [formalized collaborative partnership](#) between the U.S. Fish and Wildlife Service, the National Council for Air and Stream Improvement, Inc. (NCASI), and NAFO to conserve common, at-risk, and listed species on private working forests. The WCI makes 44 million forestland acres available for research and conservation related activities. Through the WCI, private forest owners provide access, data, and information to support research efforts, inform management and decision-making, and improve outcomes for species at scale. Through this partnership and related efforts at the federal, state, and local levels, NAFO members alone report over 10 million acres committed to formal conservation projects.

Private working 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. They support 2.5 million well-paying American jobs,² including 450,000 manufacturing jobs, mainly in rural communities.

CARBON BENEFITS OF PRIVATE WORKING FORESTS

It has long been recognized by the United Nations Intergovernmental Panel on Climate Change (IPCC) that forests play a key role in global efforts to reduce and mitigate carbon emissions. Climate mitigation from our nation’s forests includes three important elements: forest carbon sequestration, forest carbon storage, and the carbon benefits from using 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.³

¹ Over the past 20 to 25 years, there has been a significant shift in forest ownership in the United States away from integrated corporations toward a variety of ownership and management structures, including publicly traded Real Estate Investment Trusts (REITs), Timber Management Investment Organizations (TIMOs), and large and small family ownerships. These forest owners are international leaders in sustainable forest practices.

² Forest2Market. 2019. The Economic Impact of Privately-Owned Forests in the 32 Major Forested States. Available at: https://nafoalliance.org/wp-content/uploads/2018/11/Forest2Market_Economic_Impact_of_Privately-Owned_Forests_April2019.pdf#page=9.

³ 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. 2017. Considering Forest and Grassland Carbon in Land Management. Gen. Tech. Rep. WO-95. Washington, D.C.: United States Department of Agriculture, Forest Service, p.68.

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 our net forest carbon sequestration and remove more carbon from the atmosphere than is emitted by all passenger vehicles in the U.S. each year.⁴ Private working forests in the U.S. also store an estimated 82 billion metric tons of carbon. That amount is nearly half of the carbon stored in all U.S. forests combined. By providing a continuing cycle of growing, harvesting, and replanting, sustainable forest management improves forest health and resilience and optimizes the capacity of private working forests to sequester and store carbon.

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 close to 100 million metric tons of carbon to the 10.08 billion tons of carbon stored in the 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.

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

In 2020, NAFO led the development and adoption of a unique set of [Principles on Private Working Forests as a Natural Climate Solution](#), signed by NAFO, the CEOs of 43 leading U.S. forest-owning companies, The Nature Conservancy, the Environmental Defense Fund, American Forests, and the American Forest Foundation. These “CEO Principles” express a common vision for increasing the climate mitigation of sustainably managed private working forests and sustainably produced solid wood products through market- and incentive-based approaches.

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 enabling private working forest owners to provide additional climate benefits from their lands. Among these, voluntary carbon markets are a potential opportunity to grow natural climate solutions while providing important income potential for forest landowners.

While private forest owners welcome the opportunity to monetize the environmental benefits of their forests, voluntary carbon markets must have integrity to scale to a level that will drive real impact. Therefore, as the CFTC looks to develop standards around these markets, we encourage the Commission to: 1) help ensure the integrity of

⁴ Oswalt, Sonja N.; Smith, W. Brad; Miles, Patrick D.; Pugh, Scott A., coords. 2019. Forest Resources of the United States, 2017: a technical document supporting the Forest Service 2020 RPA Assessment. Gen. Tech. Rep. WO-97. Washington, DC: U.S. Department of Agriculture, Forest Service, Washington Office. 223 p. Available at: <https://doi.org/10.2737/WO-GTR-97>.

voluntary carbon markets and VCCs; 2) avoid disrupting the positive relationship between the marketplace and the environment; and 3) engage NAFO and AWC members throughout the process.

1. CFTC should help ensure the integrity of Carbon Markets and VCCs.

In December, CFTC Commissioner Kristen Johnson stated that a major issue plaguing voluntary carbon markets is a “deeply concerning, and nearly indisputable, proliferation of fraud.”⁵ A month earlier, Commissioner Johnson also stated that “in order for the carbon offset markets to have any significance (and, arguably, for such markets to avoid extinction), we must ensure the integrity of the market.”⁶ We could not agree more.

As such, we support the efforts of the CFTC to ensure integrity, transparency, and verifiability within these markets. The Commission’s proposed guidance represents a helpful step forward in ensuring that carbon offset projects are credible and reliable. By establishing clear guidelines for VCCs and carbon markets, the CFTC will not only protect investors but also safeguard the integrity of carbon offset projects.

As CFTC develops standards, we advise that in order for offset projects to provide climate value, they must be:

- **Real**, meaning they represent an actual net removal taking into account leakage, which occurs when increasing sequestration or storage in one location causes a corresponding reduction in sequestration or storage in another location.
- **Additional**, meaning increased carbon sequestration above a baseline.
- **Permanent**, ensuring the carbon is stored for an appropriate duration with appropriate measures to account for disturbances like severe wildfire or storms that may impact carbon stocks.
- **Measured** according to an appropriate methodology.
- **Verified** by an independent third party to ensure it meets all necessary criteria and GHG reductions are properly quantified and accounted for.
- **Unique**, taking safeguards to prevent double-counting of removals.

We support measures to ensure offsets provide climate value according to the criteria laid out above. These requirements can be met by registering and verifying offset projects with established carbon registries using existing carbon accounting methodologies or protocols. Information about these offset projects are then made public via a transparent registry system. As CFTC notes in its proposal, the four largest

⁵ Commodity Futures Trade Commission. (December 4, 2023). Statement of Commissioner Kristin Johnson: Commission Guidance Regarding Listing of Voluntary Carbon Credit Derivative Contracts. Available at:

https://nafoalliance.org/wp-content/uploads/2018/11/Forest2Market_Economic_Impact_of_Privately-Owned_Forests_April2019.pdf#page=9.

⁶ Kristin Johnson, Commissioner, CFTC, Keynote Address at The Federal Reserve Bank of Dallas: All Hat, No Cattle: The Need For Market Structure Reforms in Voluntary Carbon Markets (Nov. 29, 2023),

crediting programs in the voluntary carbon markets are the American Carbon Registry, the Climate Action Reserve, the Gold Standard, and the Verified Carbon Standard.

2. CFTC should avoid disrupting the positive relationship between the marketplace and the environment.

While we commend the CFTC's efforts to develop guidelines around voluntary carbon markets, it is also crucial that the Commission remain vigilant against unintended consequences that may arise from voluntary carbon markets.

One specific concern is that voluntary carbon markets can and should be compatible with ongoing forest management practices, including active forest management and timber harvesting. Forest management practices such as selective harvesting, thinning, and regeneration harvesting are essential for maintaining forest health, diversity, and productivity and long-term carbon benefits, even if they temporarily reduce forest carbon stocks. In a carbon market context, private forest owners may hesitate to participate in forest carbon markets if they are penalized for short-term fluctuations in carbon stocks associated with timber harvesting. Thus, any regulatory framework must carefully balance the need for market integrity with the imperative to encourage sustainable land management practices. CFTC should ensure that voluntary carbon market standards promote sustainable forest management while avoiding actions that could undermine the very objectives of the carbon market.

Further, the CFTC should carefully consider the impact of its guidance within the broader context of the forest products market, which in the U.S. is mature, complex, and interdependent. While we support CFTC's focus on ensuring integrity, the CFTC's guidance should not seek to expand, accelerate, or in any way manipulate the voluntary carbon market.

3. CFTC should engage NAFO and AWC members throughout the process.

We extend our gratitude to the Commission for actively involving and soliciting feedback from our members during the development of proposed guidance for voluntary carbon markets. As this effort progresses, prioritizing stakeholder engagement will be paramount.

We urge the CFTC to continue providing platforms for public input accessible to all market participants, including our members in the forestry sector. Many of our member companies have deep experience in the U.S. and internationally with what works (and what does not) with respect to voluntary carbon markets. In addition, in July 2023, NAFO was honored to participate in the second Voluntary Carbon Markets Convening hosted by CFTC. Our members are eager to continue active participation engagements related to carbon markets.

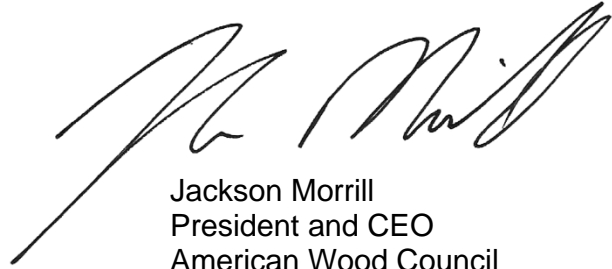
We appreciate the opportunity to contribute to the ongoing dialogue surrounding the proposed guidance for voluntary carbon markets. We recognize the importance of

maintaining the integrity of carbon markets while maximizing the environmental and economic benefits of private working forests. Moving forward, we remain committed to collaborating with the CFTC and other stakeholders to advance sustainable forest management practices, promote climate mitigation efforts, and ensure the long-term viability of private working forests as a vital natural resource. Thank you for considering our comments, and we look forward to continued collaboration on this important issue.

Respectfully,



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