

## **Market-based Conservation Incentives Workshop**

Strategies for family forest owner participation in biodiversity and water markets

### **Day II: Thursday, September 11, 2008**

*Beth Larry remarks: Recap of Day I*

We had a fantastic day yesterday! Let me take you through some of the highlights.

Robert Bonnie opened the meeting by bringing us back to a time when landowners were pitted against endangered species, or the presence of a wetland. He talked about the Environmental Defense Fund's experience in aligning the interests of the landowner and the environment, and explained how species – and ecosystem services – can in fact be an asset for a landowner, instead of a liability. He reminded us that markets are about rewarding performance, rather than just practices, and that markets are only successful if they take real steps toward species recovery, enhanced water quality, or the achievement of another environmental benefit.

Kate Hamilton provided us with a great overview of the types of markets that have emerged. As an expert on the carbon market, she explained that we have a lot to learn from the carbon markets. Like the fact that we need a driver to drive demand; we need to create tools to ensure a real, measurable benefit; and we need methodologies, and registries to track units – but we need to balance this with transaction costs. Kate noted that there's a movement away from carbon to “the next big thing” – is it water, or biodiversity?

We had two panel sessions in the morning, both aimed at getting us thinking about market development and design.

- Tom O'Brien's experience in the NYC watershed revealed that the greatest driver in conservation is the cost of the alternative, or “the cost of not doing so.”
- Frank Casey shared the value of a landowner survey. He told us to know our communities, what landowners and residents want, and to take market research seriously.
- Sarah Vickerman captured the five components of an ecosystem marketplace, which are some of the sticky points we're grappling with. An ecosystem marketplace must be (1) ecologically effective; (2) it must address multiple values; (3) it needs to be a strategic investment at the landscape scale; (4) it needs to be transparent, and credible; and (5) it needs to be accessible, and have low transaction costs.

Dan Spethmann brought the landowner's perspective – he addressed the “what's in it for me” question. He explained how a landowner might think about the land base in terms of a value creation strategy, assessing the tradeoffs or competing values and uses for a particular parcel of land – and what the return profile might be. He said we may look through a particular lens – whether it's a carbon lens, a biodiversity lens, or a water lens – but land doesn't come that way.

Eric Sprague and Hughes Simpson brought us to the Chesapeake Bay and to the “mountains” of Texas. We learned about BayBank, and the Texas Forest Service's role as a verifier for CCX carbon. Both are examples of how leaders stepped in to fill a real market need.

- For BayBank – a need to connect buyers and sellers, to lower transaction costs, and to provide transparency to an emerging marketplace.
- Texas Forest Service quickly realized the value of in-house expertise – the need for training and new, market-related skills in forestry. They discovered that the real market need in Texas is a neutral stamp of approval that both landowners and buyers trusted.

After lunch we dived into two case studies – the Golden-cheeked Warbler Recovery System and the Willamette Partnership, two outstanding presentations that revealed the importance – and the need to connect regional efforts and learn from each other.

Our last panel of the day allowed us to expand on the day’s discussion with a diverse set of perspectives. A few key points from the day resurfaced:

- the need to bundle or simply coordinate payments and projects – and move away from a piece-meal approach;
- the important role of the public sector in developing standards and guides; and
- the importance of aggregating family forest owners to bring the supply side to a scale large enough for an investor. David Primozych talked about the role of a broker in finding landowners, aggregating sellers, pooling credits, and dealing with buyers.

Our discussion yesterday was rich and provocative. And it was encouraging – over the past few years, the conversation has moved beyond the introductory phase. We’re no longer asking who the buyers are. We’re sharing real examples of market design and innovation, and we’re thinking about how to address some common issues and constraints.

Several themes emerged yesterday. I’m going to mention six.

*1. There’s a time and a place for market-based conservation.*

Robert Bonnie said “sometimes you just have to keep the trucks off the beaches” – that markets can’t solve all conservation problems. Kate Hamilton said you have to look at the numbers and decide when it’s worth it – sometimes a conservation donation might be just as effective, or more, than a voluntary trade. Frank Casey encouraged us to consider complementary incentives that can achieve the environmental goal, like cost share programs or tax credits.

*2. The need to provide proof-of-concept, through demonstration projects or pilots.*

Demonstration projects can help market-based incentives gain traction. They allow us to learn and refine our approach or design. They point out new information and partnership needs – and they can inform market development.

*3. The role of the public sector was questioned throughout the day.*

Is it to guide market development and conduct? Is it to provide metrics, enforcement, and oversight? Is it to put demonstration projects on the ground, to develop methodologies and outcomes, toward a uniform standard? Is there a role for public funds in creating insurance pools? Radha Kuppalli said yes to all of the above – the development of standards and guides would be a clear signal to the private sector.

*4. Balance, and trade-offs, particularly the need to balance precision and practicality.*

Sarah Vickerman called it “the thorny problem of measurement.” David Primozych explained how getting to another decimal point isn’t entirely useful. We need a credible market and a verified environmental benefit, but measurement and monitoring can’t be too involved or expensive as to preclude a landowner from participating. If we can’t make land management for markets profitable for a landowner, we won’t be able to bring markets to scale.

*5. Using our collective resources to move from theory to practice.*

Building upon what we learn from others. Piecing projects together, pooling funds, and stacking markets to restore at a much larger scale over less time.

And we should note yesterday's appreciation for the opportunity to convene. Dan Spethmann said that these meetings allow us "to focus our activities and bring us to the ground."

6. And last, *the importance of leadership in moving out on market-based concepts.*

In explaining the NYC watershed model, Tom O'Brien said that despite the number of partnerships, it came down to a few individuals who were willing to cross the lines and strike a deal. Bobby Cochran said it was about a people stepping up to the plate. Advancing markets is about taking risks, sharing - and executing - a vision, and maintaining an entrepreneurial spirit.