

October 1, 2008

Working Lands Investment Partners, LLC

American Family Forest Market-Based Conservation Incentives Workshop:
Strategies for Family Forest Owner Participation in Biodiversity and Water Markets

This brief article accompanies the presentation entitled *Legal and Financial Aspects of Markets and Managing Risk*. The article is intended to give insight into the slide presentation viewed without the oral presentation.

The overarching objectives of the presentation are to:

1. Expand the notion of marketable goods and services provided by a forest to include carbon sequestration, water quality and quantity, and wetlands and biodiversity mitigation.
2. Recognize that the markets for these services are at various stages of development.
3. Recognize that disciplined stewardship planning takes these options into consideration and must do so in the context of the landowner's management objectives.
4. Recognize that disciplined stewardship planning optimizes the combination of alternative land uses in concert with the landowner's objectives, and is constrained by the reality of what the land base can produce.
5. Optimizing one output, e.g. carbon, can sub optimize other uses, e.g. timber production. A balance must be struck in a very fluid environment.
6. State and private forest agencies may have the tools and skills that can be applied to comprehensive stewardship planning to aid non industrial private timberland owners.

The markets for forest based carbon offsets are between an existing voluntary market and an anticipated regulatory market. Planning production of carbon offsets is a difficult proposition in this market environment. It may be best viewed as a fallout benefit given a certain set of land use objectives. For instance, if the land use objective is preservation and is consistent with a conservation easement precluding subdivision and development in perpetuity, then carbon may provide a marginal contribution to the landowners revenue stream. This is one reason why the conservation organizations are engaged in carbon transactions, the transactions are consistent with the primary goal of preservation. The same may not be the case for a working lands landowner who is not in a position to accept the opportunity cost associated with an easement at the current price of carbon. For NIPF owners there are startup markets such as the CCX that provide an outlet for carbon without the long term commitment. These so-called offsets will most likely not make the transition into a regulatory market.

Including wetlands, stream or biodiversity in the land use plan can provide a good source of revenue for the landowner. Of course the land must have the appropriate profile to meet the supply criteria, and the location will impact the potential for demand for the credits that may be generated.

Water quantity and water quality trading markets are early in development. They might be expected to develop more quickly than the mitigation markets – benefiting from their experience. The potential for revenue from these markets can be included in land use planning, but until there is a regulatory environment there is not a readily identifiable source of demand.

The developing markets for ecosystem services may be advantageous to the non industrial private landowner. Some key elements will be required; knowledge of the market opportunities, aggregation to decrease transaction costs, and regulatory environments with clear standards and transaction platforms.

The state and non industrial support sector, government and NGOs, can provide valuable services helping the non industrial private forest owner engage in these markets.

State and Private Forest -stewardship planning

- Expand the notion of forestry / land use outputs –good and services
- Provide landowners with the tools necessary to optimize their land using forestry skills
- Participate in the entitlement process to include forestry principles

Land management support community

- Inform policy with guidance leading to results on the ground
- Provide tools that are necessary to support market transactions
- Provide outreach and tools necessary for private landowners to evaluate their options with ecosystem services markets

Learn–Do–Teach

Support active pilot projects that demonstrate effective management regimes and routes to market

Dan Spethmann

Managing Partner

Working lands Investment Partners, LLC.

dspethmann@working-lands.com