

July 31, 2007

Stephen D. Hobbs, Chair
Oregon Board of Forestry
State Forester's Office
2600 State Street
Salem, Oregon 97310

Dear Chair Hobbs and Members of the Oregon Board of Forestry:

As part of the Board's 2007 Issue Scan, the Forest Resource Trust Advisory Committee is proposing the attached "Ecosystem Services" issue for consideration as a priority topic for future work by the Board. In addition to submitting the attached, this letter provides some background on how the advisory committee became engaged on the topic of ecosystem services.

As you are aware, the Forest Resource Trust Advisory Committee – a standing committee to the Board – reconvened in 2006 to review the Forest Resource Trust's existing Stand Establishment Program; and based on this review, to develop recommendations for improving the efficiency and effectiveness of the program. In addition, the advisory committee took the opportunity to look beyond the Stand Establishment Program to see if there were additional program opportunities that could be developed under the Forest Resource Trust statute. These efforts by the advisory committee led to the Board's adoption of administrative rule changes to the Stand Establishment Program in January, 2007, and passage of House Bill 2293 relating to the Forest Resource Trust by the 2007 Oregon Legislative Assembly. House Bill 2293, signed into the law by the Governor, establishes a cost-share program under the Forest Resource Trust as an alternative mechanism to the Trust's loan program for the delivery of financial assistance to participating forest landowners. House Bill 2293 also gives the Board the flexibility to expand the scope of Forest Resource Trust programs to include voluntary forest practices beyond stand establishment.

Originally, the advisory committee envisioned that the State Legislature would create an environmental (also known as ecosystem) services program that would build upon the Forest Resource Trust's role in securing carbon dioxide emission offset funds as a source of funding for financial assistance to family forest landowners. In developing this legislative vision, the advisory committee saw the development of markets for ecosystem services, and the Forest Resource Trust's participation in them, as a tool that landowners could use to help them meet their objectives. The advisory committee's experience was like turning over a big rock – there was a lot to discover, observe and learn. Developing markets for

ecosystem services is a dynamic and complex enterprise in part because the services themselves are dynamic and complex. The topic proved too big to be addressed by the advisory committee's proposed legislative action. Based on amendments developed by a work group established by the House Agriculture and Natural Resources Committee (Representative Arnie Roblan, Chair), the final bill removed the advisory committee's proposed ecosystem services program structure. Instead, the final bill adopted the provision that the Forest Resource Trust, as implemented by the Oregon Department of Forestry, take on the role of assisting participating landowners in securing payments for ecosystem services consistent with their land management strategies and objectives.

Even though further action on ecosystem services is now beyond the scope of the Forest Resource Trust programs, the advisory committee felt it worthwhile to communicate to the Board what it has learned about this important, emerging issue. At a minimum, further consideration and discussion by the Board will inform the Oregon Department of Forestry's implementation of House Bill 2293's direction that the Forest Resource Trust assist landowners in securing payments for ecosystem services. More broadly though, it is also the advisory committee's desire that the Board review emerging markets for ecosystem services to determine how activities in those markets may contribute to accomplishing the strategies detailed in the 2003 Forestry Program for Oregon.

As it turns out, the Board's 2007 Issue Scan provides a timely and appropriate forum for the advisory committee to pass along this topic. Please contact me at (503) 222-3148; patrik.norris@scotiacapital.com, or Peter Daugherty, Private Forests Program Director, Oregon Department of Forestry at (503) 945-7482; pdaugherty@odf.state.or.us with any questions or comments.

Sincerely,

Patrik Norris, Chair
Forest Resource Trust Advisory Committee

cc: Dan Postrel, Agency Affairs, Oregon Department of Forestry
Forest Resource Trust Advisory Committee
House Bill 2293 Work Group Members
Oregon Department of Forestry Executive Staff

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Please describe the proposed issue [in 500 words or less]:

According to recent statute (House Bill 2293) adopted by the Oregon State Legislature:

“Ecosystem Services” means environmental benefits arising from the conservation and management of forestland, including, but not limited to, fish and wildlife habitat, clean water and air, pollination, mitigation of environmental hazards, control of pests and diseases, carbon sequestration, avoidance of carbon dioxide emissions and maintenance of soil productivity.

Markets, or other mechanisms providing payments to private forest landowners for ecosystem services, are emerging – with non-governmental organizations and private businesses being in the lead in many cases. Examples include carbon dioxide emission offset payments, wetland mitigation banks and water quality trading programs.

Categories of sub-issues underlying ecosystem services identified by the advisory committee that need broader consideration by the Board are: 1) additionality/baseline, 2) the role of government in market development and participation, 3) fairness between regulatory triggers for markets and landowner property rights, 4) measurement and accounting, 5) complexity of transactions and other barriers for landowner access and participation, 6) the bundling of ecosystem services, and 7) state and federal agency coordination. The advisory committee found particularly challenging the sub-issue of additionality (i.e., changed behavior or action that might not otherwise occur but for the ecosystem service payment) and baseline (i.e., the threshold or floor that changed behavior or action must exceed to be eligible for an ecosystem service payment).

The advisory committee sees the following benefits arising from the Board’s broad consideration of ecosystem services and emerging markets and other payment mechanisms to private forest landowners for them.

- Recognition as to how markets for ecosystem services can be used to accomplish existing strategies and actions in the 2003 Forestry Program for Oregon.
- Communication of the opportunities (and possible pitfalls including the relative costs and benefits) markets for ecosystem services provide for private forest landowners in simple, understandable terms.
- Clear direction by the Board to the Department on what needs to be looked at with respect to ecosystem services in the next (2010) long-term forest assessment,

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- Broader discussion, understanding and resolution of the issues of fairness arising from the early development of ecosystem services markets,
- Removal of barriers inherent in additionality and baseline in recognition that landowners with the historical foresight and objective to develop and maintain ecosystem services should be the first in line for ecosystem services payments, and
- Improved and effective coordination amongst the various agencies and natural resource sectors on resolving identified sub-issues.

In order for the above listed benefits to be realized, the Board of Forestry needs to be actively engaged in the discussion and development of proposed policy resolutions to these sub-issues underlying ecosystem services and payments to landowners for them. The discussion cannot just be within the Oregon Department of Forestry, or within the Board and the forestry community. There is opportunity for the Board to emerge as a leader and catalyst on this topic with other commissions such as the Fish and Wildlife Commission, the Environmental Quality Commission and the Board of Agriculture.

Return to: Oregon Department of Forestry
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before **July 31, 2007**