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As part of a PacifiCorp forestry carbon offset project, 90 acres of Douglas-fir were planted in 1994 in Polk County, Ore.

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STAFF:
LORI D. RASOR, Editor
FRIEDA RYAN, Assistant
4033 S.W. Canyon Rd.
Portland, OR 97221
(503) 228-1367 ext. 104
FAX (503) 226-2515
e-mail: rasor@safnwo.org
ryan@safnwo.org
MINTEN GRAPHICS, Graphic Design

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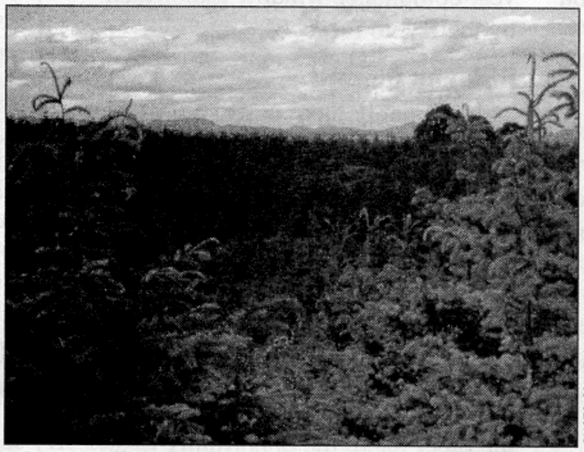
Oregon's Carbon Investment in Family Forestlands

By JIM CATHCART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The Forest Resource Trust encourages forestation on underproducing lands.

Forestry-based carbon offset programs involving family forest owners usually offer the landowner some sort of favorable financial assistance to cover the cost of site preparation, tree planting, seedling protection and competitive release in exchange for obtaining ownership of the carbon offsets arising from the newly created forest. A common denominator to these programs is the type of land they target—underproducing land capable of supporting a forest, but currently lacking a manageable stand of trees or seedlings. Examples include old pastures, abandoned Christmas tree lands, wildfire-burned lands, brush fields, agricultural lands or otherwise productive lands dominated by non-commercial tree species. These are lands that will likely remain in a non-forested condition unless financial assistance to plant and establish trees on a particular site is provided. The need for financial assistance is important because carbon programs must create new forested land to claim credit for carbon offsets.

Oregon's Forest Resource Trust

The Forest Resource Trust, which in 1999 received over $1.5 million of carbon offset monies from the Klamath Cogeneration Project, illustrates these types of carbon offset programs and what opportunities they provide for landowners (see sidebar).

The trust provides financial and technical assistance to landowners for establishing a forest where none currently exists. The trust works like a venture capital arrangement between the state of Oregon and the landowner. The landowner provides the land capital (in this case, 10 to 5,000 acres of underproducing land not subject to a reforestation requirement under the Oregon Forest Practices Act) and the state provides up to 100 percent of the forestation cost from site preparation through free-to-grow establishment through direct cost payments to consultants, contractors and others hired by the landowner to do the work. In exchange, the landowner accepts responsibility for managing the reforestation project based on an agreed project plan. Local service foresters of the Oregon Department of Forestry provide technical assistance during all stages of the project. The arrangement works through a long-term contract secured by a future forest products lien that acts as a covenant that runs with the land.

There is not a financial obligation to pay back any monies provided by the trust unless the landowner (or successor) chooses to harvest the forest created under the trust. Absent any commercial harvest, the contract sunsets after 200 years. If timber harvest does occur, then the landowner pays back a fixed percentage of the harvest profits. For the first 25 years, landowners have the option of buying out of the trust contract by repaying the funds at a loan rate of 6.8 percent interest.

Who Owns the Carbon Offsets?

Under the terms of the contract, the Oregon Board of Forestry takes ownership of the carbon offsets created by the new forest. The carbon offsets are used by the board to generate funding for the trust. For example, the $1.5 million brought in from the Klamath Cogeneration Project is based on the forestry board passing back 1.16 million metric tons of CO_2 in carbon offsets over a 100-year period. The cogeneration project then permanently retires these offsets as mitigation for its CO_2 emissions.

Since it is the assistance program, and not the landowner, that receives the revenue from forestry-based carbon offsets, the attractiveness of the program should be based on the landowner's desire to establish a forest on their underproducing lands and the favorable terms of the financial assistance. For the trust, the transfer of ownership of the carbon offsets from the landowner to the forestry board is justified based on the favorable terms of the financial assistance (e.g., no obligation to pay the monies back absent any future timber harvest) and other benefits arising from the trust project. For example, any financial obligations or impacts under the contract that cannot be met due to a change in federal or state regulation are absorbed by the state through a contract modification. Similarly, costs are also absorbed for non-salvageable losses incurred as a result of natural causes such as fire, drought, or insects and disease. The Forest Resource Trust is responsible for developing the actual carbon offset credit. Product development includes developing a carbon accounting and registration system that defines the basis for calculating the carbon offset credits. The credit is a certificate that documents the amount of carbon offset and its source so claims for it cannot be duplicated. It is the certificate or credit that makes the carbon offset a tradable commodity. Product development also includes verification of the carbon offset credits and approval by the relevant government agencies.

Summary

Markets for forestry-based carbon offset projects are emerging, as are the infrastructures necessary to facilitate the transfer, sale or use of offsets as mitigation for greenhouse gas emissions. It will be difficult for landowners to develop markets for these offsets on an individual basis. However, forestry assistance programs like the Forest Resource Trust are using the lure of forestry-based carbon offsets as a means to generate funding. Family forest owners can benefit from favorable financial assistance terms for monies covering forestation costs and the technical assistance provided by state forestry agencies, not to mention the newly created healthy and productive forest on their lands. ■

Jim Cathcart *is manager of the Forest Resource Trust, Oregon Department of Forestry, Salem. A member of the Society of American Foresters, he can be reached at (503) 945-7380, jcathcart@odf.state.or.us. For more information on the Forest Resource Trust, visit the trust's Internet site at www.odf.state.or.us/fa/SF/FRT/FRT.htm.*

Oregon's Forest Resource Trust

Created: 1993, Oregon Revised Statutes (ORS 526.700 - ORS 526.775)

Agency: Oregon Department of Forestry

Funding History:

	1994:	$3.5 million Oregon State Lottery Funds
	1994:	$75,000 PacifiCorp Investment
	1995:	-$2.5 million re-appropriated (lost) to other uses
	1999:	$25,000 from Colorado architectural design firms
	1999:	$1.5 million Klamath Cogeneration Project funds

Projects-to-Date:

1994-95:	17 projects, 16 landowners, 552 acres
1999:	1 project, 1 landowner, 18 acres
2000:	1 project, 1 landowner, 50 acres, (Eastern Oregon) (118 acres, 6 landowners, currently under review)

208 acres successfully established under buyout option

Carbon Monies: $1.5 million carbon dioxide (CO_2) emission offset investment from the Klamath Cogeneration Project—a 500-megawatt natural gas-fired and steam generation plant in south-central Oregon owned by the City of Klamath Falls and operated by PacifiCorp Power Marketing, a non-regulated subsidiary of Portland, Oregon-based PacifiCorp.

Carbon Benefit: 1.16 million metric tons CO_2 emission offset from the forestation of 2,400 acres of Site III or higher underproducing forestlands in western Oregon.

Example Project: Grund-Clampit Forest Resource Trust Project (Polk County)

- Previous use—18 acres in agricultural (hay cover).
- Contract signed in October 1999.
- Trees planted in February 2000.
- Expected to reach free-to-grow in 2005.
- 7 acres converted to Oregon Ash, western redcedar riparian forest (funded by non-carbon monies).
- 11 acres, Site II, converted to 90% Douglas-fir, 10% grand fir mix (Klamath Cogeneration Project monies).
- All costs financed through free-to-grow.
- Revenue sharing: 30% of net revenues for first 628,200 board feet harvested.
- Carbon benefit: 6,000 metric tons CO_2 emission offset.