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The Honorable Mary Nichols  
Chairman  
California Environmental Protection Agency  
Air Resources Board  
1001 I Street  
Sacramento, CA 95812

RE: Finite Carbon Comments on the Air Resources Board June 22<sup>nd</sup> Cap-and-Trade Meeting  
Regarding Offset Protocols

Dear Chairman Nichols:

Finite Carbon is a forest carbon offset project developer with extensive experience within California and throughout the United States. Finite Carbon staff have decades of combined carbon and forestry experience with three foresters including a California Registered Professional Forester, two certified CAR verifiers including the lead verifier on all three registered CAR projects, a broker with experience transacting CAR forest carbon, a member of the CAR forest carbon working group, two members of the Forest Carbon Offset Standards Committee, an author of an American Carbon Registry forest carbon methodology, and an adjunct professor specializing in forest carbon and ecosystem markets.

We would like to thank the Air Resources Board for its dedication to implementing climate legislation in California – from SB527 to AB-32. To date, we have submitted twelve projects to the Climate Action Reserve capable of generating several million tons of high-quality, additional forest carbon offsets with significant environmental and social co-benefits. Without the State of California's leadership in encouraging early action to document and reduce carbon emissions beginning in 2001, we would not be implementing these CAR projects today. At this moment across the country, teams of foresters are designing and implementing forest carbon inventories which are creating green jobs in rural areas and will lay the foundation for the modeling of forest offsets. Their ultimate registration and sale will increase revenue for landowners during difficult economic times while encouraging prudent management of the nation's forests.

It is because of these tangible, productive results that we encourage the California Air Resources Board to continue to make thoughtful and informed decisions which will directly

benefit the environment and forest owners. As part of this ongoing process, Finite Carbon has developed a short – albeit significant – list of comments on recent ARB presentations which we consider critical elements necessary to ensure a robust and active market that will increasingly attract landowners to implement projects resulting in high-quality, additional forest carbon offsets.

#### I. Buyer Liability

We cannot stress the importance of removing buyer liability enough. Requiring that buyers take responsibility for unknown liability and incalculable risk will no less than decimate the price paid for carbon offsets making the implementation of these projects infeasible.

The purpose of offsets in a regulated cap-and-trade system is to serve as a cost containment mechanism. By introducing the risk of ex-post disqualification, ARB would effectively eliminate all financial benefits of offsets for regulated entities. This policy would impact forest projects even more significantly since unlike other offset projects, forest projects face the dual threat of unintentional reversals such as fire, disease, and wind-throw as well as intentional reversals of harvesting and conversion. Regulated entities are not equipped to assess these environmental risks nor are they willing to expect landowners will not harvest if not subject to liability. Given these risk factors, it is untenable to expect these entities to purchase offsets from a market governed by such a policy.

Finite Carbon believes that in order for there to be demand and a robust price nearly equal to allowances, all offsets, on a fully risk-adjusted basis, must be unequivocally fungible with issued allowances as well as with one another. Without this stipulation there will be no liquid market or competitive price for offsets.

#### II. Early Action and Project Location

As a national leader in climate change legislation beginning in 2001, California has prevailed where others have failed. It was the first to set up a robust system for the registration of corporate emissions, the first to lend its support to the development of offset protocols, and the first – as a result of this support – to incite market demand for high-quality, additional forest carbon offsets. Its support of, as well as direct participation in, the development of the Forest Carbon Project Protocol version 3.0, has led to a multi-million dollar market which has resulted in more than

a hundred and twenty forest owners from across the country submitting CAR forest carbon projects that without ARB's leadership would not have occurred.

It is for these reasons that we encourage ARB to allow for the participation of all landowners from across the United States which have followed the CAR protocols, in part crafted by ARB, to participate in the California cap-and-trade program.

Furthermore, given that ARB's admirable leadership of this program began in 2001, it is only appropriate that recognition of early action which followed as a result of this early legislative effort of building the infrastructure for an eventual carbon market also begins in 2001. There is no reason to exclude high-quality, additional offset projects which began in 2001, 2002, 2003, or 2004 while simultaneously recognizing the early action efforts of equally high-quality and additional projects with start dates of 2005 and later.

### III. Regulatory Additionality

Allowing high quality, additional forest carbon offsets from other states must be managed in a responsible, pragmatic way. Local regulations and management practices were developed to address specific regional requirements over many decades. Forestry is an inherently long-term industry with business plans stretching decades into the future and ownership histories, in some cases, of more than a century.

It is this long-term and conservative nature of forest owners which makes the leap to increase their rate of carbon sequestration over common practice levels no less than revolutionary. To expect a forest owner 3,000 miles away from Sacramento which has managed her land in the same way for over 100 years to suddenly adhere to California Forest Practice Rules is unrealistic. The current strict guidelines of any approved forest carbon protocol are in and of themselves causing a major course correction for some forest owners. While the incentive of an additional revenue stream may be enough to produce truly additional, high quality carbon offsets through increasing sequestration beyond common practice, it is not enough to reverse course on decades of regional idiosyncrasies which have shaped the more than 400 million acres of privately owned forest land located outside the state of California. The result of such a policy would be prohibitive to offset projects outside of the state and result in higher compliance costs for California entities and consumers.

#### IV. Early Action Recognition

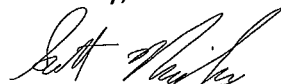
In the United States today there are three widely recognized offset standards which are considered by those involved in the carbon market to be potentially compliance grade. These include the Climate Action Reserve, the American Carbon Registry, and the Voluntary Carbon Standard.

While it is admirable that ARB is contemplating the development of its own similar protocols to ones already existing under these standards, this decision would ignore the benefit of the years of experience and existing infrastructure inherent in these standards which have proven themselves functional. Finite Carbon suggests the incorporation of these existing standards would be a much more efficient and practical course of action for ARB and would save significant tax dollars desperately needed for other purposes. The development of the CAR forest carbon protocol alone was a two-year process. The delay caused by not adopting existing standards for early action would not only stunt the market and delay the development of projects – it would delay addressing global climate change.

Finite Carbon recommends that ARB seriously review and consider all protocols and methodologies (as well as subsequent versions) under existing standards for adoption as early action options. Finite Carbon has already expended hundreds of thousands of dollars on developing forest carbon projects producing offsets worth several million dollars which are putting people to work and sequestering carbon. The unequivocal recognition of early action protocols by ARB would jump-start the development of even more projects and contribute to near-term jobs and environmental benefits.

We thank you for your consideration and would be happy to answer any questions you may have.

Sincerely,



Scott Nissenbaum

President

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