FACT SHEET

California's U.S. Forest Offset Protocol Over-credits Reductions

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California's U.S. Forest Protocol allows California emitters regulated under the state's cap-and-trade program to pay forest landowners to sustainably manage their forestlands, in lieu of reducing their own emissions. So far, the forest protocol has generated 62% of California's offset credits, with more than half of those credits coming from projects outside of California. This fact sheet describes why many forest protocol offset credits do not represent real emissions reductions, weakening the state's climate efforts.

The forest protocol credits business-as-usual land management

California's forest protocol allows any forest landowner in the United States to sell offset credits if they manage their forestlands to hold more carbon per acre than the baseline, and commit to maintain that carbon for one hundred years. Most projects define the baseline as the average carbon storage for that region and forest type. By definition, half of forest carbon is on lands that already hold more than average carbon. The purpose of the protocol is to encourage landowners to manage their lands to hold more carbon than they otherwise would have. But the protocol also allows forest landowners that were already managing their forestlands sustainably to earn offset credits for doing so without changing their management practice. California does not assess the effect the protocol is having on land management practice compared to how much it is supporting land management that would likely have happened anyway. Instead California assumes that all participating forestlands are sustainably managed *because of* the incentive from the offset program. As a result, California over-estimates the protocol's effect on emissions, crediting forestland management that is business-as-usual.

The forest protocol displaces timber harvesting more than reducing it

Most California forest protocol projects pay forestland owners to reduce timber harvesting. If timber harvesting is reduced on some lands, without corresponding reductions in the number of houses that are built, or furniture and paper produced, timber will simply be harvested somewhere else to meet demand. This effect is called *leakage*. Two published studies estimate that the leakage rate from forest conservation in the United States is around 80%.[1] The forest protocol assumes a leakage rate of only 20%. If the protocol were to properly account for leakage, the number of credits generated by the protocol would be substantially lower than current crediting.

Preserving the environmental integrity of the cap-and-trade program requires making the offset program much smaller with stricter standards.

If allowed to continue as is, California's offset program could make up one-third of total climate effort in California through 2030,[2] introduce false and uncertain reductions into the cap-and-trade system, and depress carbon prices below what is needed to drive meaningful reductions in the state's capped sectors. False crediting can be contained with stricter standards. However, ultimately, assessments of the effects of an offset protocol on emissions, including business-as-usual crediting and leakage, are inherently highly uncertain. If the offset program were small, the high level of uncertainty would be constrained, but with a program that can make up a large share of California's climate efforts, the level of uncertainty is unacceptably high. Preserving the

environmental integrity of the cap-and-trade program requires making the offset program much smaller with stricter standards.

California aims to implement a model climate policy, and many around the world are watching California closely. If the state implements a cap-and-trade program that reduces substantially more on paper than in practice as a model program for others to emulate, California could undermine effective global climate change action at the same time the state is trying to inspire it.

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1. Gan, J. & B. A. McCarl. 2007. Measuring transnational leakage of forest conservation. *Ecological Economics,* 64(2), 423-432; Wear, D. N. & B. C. Murray. 2004. Federal timber restrictions, interregional spillovers, and the impact on US softwood markets. *Journal of Environmental Economics and Management,* 47(2), 307-330.
2. See Fact Sheet: The Size of California's Carbon Offset Program: What does the 8% offset limit mean?