

The Woodland Stewardship Company Ltd.
(NCOC Official UK Affiliate)

Selling UK Forest Carbon Offsets on the CCX

Introduction

If you are a woodland owner in the UK and have planted or reforested your land on or after January 1st 1990, you may qualify to sell the carbon sequestered on your property in the form of Carbon Sequestration Units (CSUs). A CSU is defined as 1 metric ton (2,204 lbs.) of carbon dioxide sequestered in woody biomass.

This information sheet sets out the background to carbon market trading, the applicant's obligations, the role of the Woodland Stewardship Company Ltd, (WSC) as the Carbon Project Planner, and the procedures to be followed for marketing the CSUs or referred to by the Chicago Climate Exchange (CCX) as Exchange Forestry Offsets (XFOs).

Background

The transfer and sale of XFOs to the CCX is a potential new marketable commodity providing UK private landowners and the public sector with a new source of revenue. At present, European forest owners are prohibited from selling their XFOs on the European Emissions Trading Scheme until at least 2013 because the scope of the ETS is intentionally limited during its initial phase while experience of emissions trading is built up. As a result, the ETS covers only CO₂ emissions from large emitters in the power and heat generation industry and in selected energy-intensive industrial sectors. The ETS does not include forest carbon sinks as a means to offset these emissions.

As an alternative, WSC, which is now the official UK affiliate of the US based non-profit, the National Carbon Offset Coalition, Incorporated (NCOC), is currently seeking to sell XFOs from UK forestry projects on the CCX trading market. The quantity of XFOs to be issued to a CCX-registered forestry project is based upon the annual increase in stored carbon included in the project during the years 2003 through to 2010. CCX offsets are sold at market prices. Prices have ranged from \$1 to \$5 per metric ton of CO₂. Most people think the market will go higher, perhaps significantly higher. Total trading volume on the CCX earlier in May, 2006 exceeded nine million metric tons.

This development provides a unique opportunity for UK landowners and public and private corporations to participate now in a market-based conservation program that could help offset the environmental impacts of greenhouse gases and their effects on climate change. UK projects could include urban tree planting, Short Rotation Coppice (SRC), new community woodland planting schemes and commercial afforestation. The sequestration of carbon through natural resource based programs could help reverse soil, water and air degradation, whilst providing enhancement of wildlife and recreational opportunities.

In the emissions offset world, WSC's goal is to bring to the market a legitimate offset so that the global climate is truly benefited in the way claimed. Emissions, once released, stay in the atmosphere for a long time.

Project Criteria

The forest project must be an afforestation or reforested project initiated on or after January 1st 1990.

The forest project has a primary purpose to store atmospheric carbon over the long-term in accordance with CCX terms and conditions.

The intention of the applicant must be to maintain such lands in compliance with the principles and practices of sustainable forestry.

Procedures

Step 1

If the Applicant would like to receive an estimate of the approximate amount of XFOs for a given project, he completes a project application form and returns this together with the application fee to WSC.

The Project Planner will liaise with the Applicant about the project. The Project Planner will also calculate the estimated amount of the project's XFOs based upon all the necessary data, supplied by the Applicant or if required, by WSC. The application is then sent to the NCOC.

Step 2

After the application is reviewed and accepted by the NCOC, the XFOs are placed on the CCX registry. When a buyer is found, the Applicant is notified of the offer by the Project Planner. If the Applicant accepts the offer, he will then be asked to sign contract agreements with NCOC and WSC and provide the necessary documentation (see Applicant's Obligations below).

After the Applicant accepts the offer and signs the contract agreements, the Project Planner will commence work on preparing the more detailed Carbon Project Plan.

Step 3

Upon completion of the Project Plan, the XFOs must be verified by a third-party CCX approved verifier appointed by NCOC. Once the project's XFOs have been verified and approved, the Applicant receives payment.

Applicant's Obligations

Step 1 - Project Form Application

- (a) After giving consideration to selling XFOs, the Applicant submits a project application form to the project planner together with the application fee. The application form requires the following information;
 - The exact size of the area for the project.
 - The type of species planted in each compartment.
 - The planting years and the estimated yield class in order for the project planner to calculate the estimated number of XFOs to be included in the project application form.

Step 2 - Carbon Project Plan

If the CCX committee accepts the project, the Applicant will be asked to sign the NCOC contract and a contract with WSC. The Project Planner will then be required to write the Carbon Project Plan. The Applicant will provide;

- Written documents, such as a management plan, maps and inventory data.
- (*Optional) An Ecological Site Classification assessment showing General Yield Class estimates for each species.
- A signed attestation that the carbon sequestration is a primary objective of the project and evidence of a long-term ownership commitment to maintaining carbon stocks.
- A signed attestation that the Applicant is the legal owner of the land and the associated carbon rights or has been granted full legal title to the greenhouse gas mitigation rights.
- A warranty signed by the Applicant or project-sponsor that, excluding land sales and catastrophic events, there will be no net decrease in overall Carbon Stocks held in the owner's commercial forestry inventory during the market period.
- A statement granting NCOC and/or CCX-retained agents the right of access to project lands and documents for purposes of inspecting or auditing the project.
- Evidence that the tree planting occurred after December 31, 1989, and that the land was not in forest prior to that time.
- A description of the pre-afforestation land use and condition, the site preparation techniques, the planting technique, planting dates, species planted, planting density, and protection devices or techniques utilized, and final measured size of the afforested area (This information may already be in the management plan).
- The criteria for determining adequate stocking levels and survival rates for new plantings, and the monitoring procedure being used, and planned, for the future. (The Applicant will need to provide annual reports and periodic true-up measures)
- The planned sequence and timing of silvicultural events such as pre-commercial or commercial thinning, fertilization, competition control, and harvest. (Again, this may be in the management plan itself).

Step 3 – Follow-Up

The Applicant will;

- Provide a general observation report to the Project Planner every year over the length of the project for the Project Planner to submit to the NCOC.

***If an Ecological Site Classification (ESC) survey were to be undertaken, this would provide more accurate yield class data and therefore more accurate carbon estimates than using a carbon flow model. Therefore, it may be advisable to have an ESC done in the first instance because it is likely that carbon estimates will be underestimated using the model alone. The ESC survey is optional and could be carried out by the client or by WSC (Refer to "Fee Structure – 2007" for our rates.**

- Provide an inventory report to include numbers of trees, basal areas and yield class either at/after first thinning, or prior to clearfelling if a non-thin site, or when trees are mature enough if no thinning or felling is to occur. This data can be reviewed and compared with the amount of carbon offsets actually sold in the original application.

Please note where field survey, inventory and mapping data are required for either the project application form, the Carbon Project Plan, or Plan review, WSC can provide all of these services if required. Professional time for these additional services will be charged over and above the standard project plan fee.

Project Planner's Obligations

Step 1 - Project Form Application

- Provide the Applicant with the Information Sheet "Selling UK Forest Carbon Offsets on the CCX" and the project application form.
- Make the Applicant aware of the requirements of the NCOC and CCX, together with the implications of selling the XFOs
- Calculate the estimated amount of the project's XFOs based upon all the necessary data
- Send data to the Applicant and if the Applicant agrees, submit the project application form to NCOC.

Step 2 - Carbon Project Plan

- Collate all the necessary information and data about the property from the Applicant, including any field data and management plans, and other relevant documents for inclusion in the project plan. This may include a site visit at the Project Planner's discretion.
- Write a Project Plan for the property and gain the approval of the Applicant before submitting it to the NCOC. The Project Plan will;
 - Provide a technical description of the project area.
 - Provide a description of the project activity.
 - Identify the factors or drivers likely to affect land use and management in the project area for the foreseeable future.
 - Create a project scenario that describes how the project's activities will affect the carbon pools involved.
 - Describe the effect the project will have on other important environmental, economic, social and cultural values in the area.
 - Describe the main risks that could cause losses from the carbon pools in the project.
 - Describe the monitoring and verification program planned for the project.

Project Planner's Obligations

Step 3 – Follow-Up

The Project Planner will submit the annual assessment report supplied by the client to NCOC and provide documentation, if required, for the 3rd party verification to take place every 5 years.

The Project Planner will review carbon estimates, update the Carbon Project Plan and notify the Applicant. If future measurements reveal that the carbon sequestered does not meet the required carbon tonnage as agreed, the Applicant may extend the agreement up to two years. If carbon sequestered is more than the tonnage agreed to, WSC and NCOC will agree to market the extra tonnage via an appended listing agreement.

Financial Terms

The project's XFOs are placed in a pool by the NCOC for sale on the CCX. At present the pool runs from 2003 to 2010. Each year is referred to as a vintage year and the XFOs are sold on a year-by-year basis. The estimated amount of XFOs is calculated for each vintage year by the Project Planner. For an afforestation project planted in 2007 for example, the vintage years 2007 (the planting year) through to 2010 are calculated.

If the market at CCX becomes permanently established or extended, which is highly likely, given the current level of interest of companies and individuals in reducing their carbon footprint, the Applicant would then be able to enter a new contract with the NCOC and WSC to sell the XFOs in the next period of vintage years commencing 2011.

Of the estimated amount of XFOs for each vintage year, NCOC will only sell 80% on the CCX. The remaining 20% of the XFOs will be held as a reserve until verification is carried out during the final year of the contract to determine whether the amount of CO₂ sequestered by the project is correct. If this is the case, the 20% of the XFOs will be placed on the CCX for sale the following year. When the reserve XFOs are sold, the owner will have been paid for 100% of all the XFOs sold by the NCOC under the contract.

NCOC, CCX and WSC can make no warranty as to the marketability or market value of the XFOs.

Costs

Submission of the project application form is £90.00 payable directly to WSC.

CCX offset registration fees to be deducted are 0.15 cents per tonne of carbon and a listing fee of 0.05 cents per tonne.

NCOC will receive a commission based on 100% of the total number of XFOs sold on the CCX. This rate of commission is 20%, of which 1% is payable to WSC.

*Preparation of the Carbon Project Plan £300.00 payable directly to WSC.

***Please note that this fee is the standard minimum charge for a project less than 100 Hectares and does not include field survey(s) that may be required. Please refer to "Fee Structure – 2007" for a full description of the options available.**

All verification costs will be borne by the Applicant. This includes all WSC professional time and expenses that may be required for each audit.

An additional field inventory survey and a review of the carbon project plan will be required to calculate yield classes either at/after first thinning, or prior to clearfelling if a non-thin site, or when trees are mature enough if no thinning or felling is to occur. This data can be reviewed and compared with the amount of carbon offsets actually sold in the original application. There will be an additional charge to WSC to carry out this work. This figure will vary according to the amount of inventory data provided by the client, size and location of the property.

What do I need to do next?

Contact WSC for a project application form at: info@woodlandstewardship.com or telephone: 01743-289670

Complete the form; sign it and return it together with your payment for £90.00 by post to;

The Woodland Stewardship Company Ltd.
17 South Hermitage
Shrewsbury
Shropshire
SY3 7JS

WSC will confirm receipt of your application. We will then calculate the estimated amount of XFOs, on a year by year basis (at present for the vintage years 2003-2010). The amount of XFOs calculated will be discussed with you prior to submitting the form to NCOC. Upon your agreement, the project application form will then be submitted to NCOC.

Links

Visit the Woodland Stewardship Company Ltd at: <http://www.woodlandstewardship.com>

To find out more about the National Carbon Offset Coalition and the Chicago Climate Exchange, their websites can be visited at:

<http://www.ncoc.us> and <http://www.chicagoclimateexchange.com>