

HOUSE BILL REPORT

HB 1229

As Reported By House Committee On:

Natural Resources

Title: An act relating to carbon sequestration.

Brief Description: Developing a carbon storage trading market.

Sponsors: Representatives Buck, Anderson, DeBolt, Hatfield, Haigh, Doumit, Schoesler, Eickmeyer and Kessler.

Brief History:

Committee Activity:

Natural Resources: 1/29/99, 2/12/99 [DPS].

Brief Summary of Substitute Bill

- Creates a legislative committee which is responsible for researching a state carbon sequestration implementation and certification program.

HOUSE COMMITTEE ON NATURAL RESOURCES

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 8 members: Representatives Buck, Republican Co-Chair; Regala, Democratic Co-Chair; Anderson, Democratic Vice Chair; Doumit; Eickmeyer; Ericksen; Rockefeller and Stensen.

Minority Report: Do not pass. Signed by 4 members: Representatives Sump, Republican Vice Chair; G. Chandler; Clements and Pennington.

Staff: Josh Weiss (786-7129).

Background:

While scientific debate does exist, it is widely thought that global atmospheric carbon levels have risen in recent years. Some scientists argue that this increase in carbon has been caused by the burning of fossil fuels which emit carbon dioxide, and by changing land-use patterns which eliminate naturally occurring "carbon sinks" such as forests.

Living forests absorb carbon dioxide from the atmosphere, storing carbon in the wood mass of the trees themselves, and facilitating the storage of carbon in forest soils. It is thought that forests can mitigate recent increases in atmospheric carbon levels.

A carbon emission trading program would provide a financial incentive for landowners to maintain long-term forest production. Such a program would allow landowners to sell credits on a free market to persons who emit carbon. This could only be accomplished through a state standardized and certified program.

Several other states, including Oregon, Montana, California, Hawaii, Georgia, Maine, Minnesota, and Ohio, either have implemented or are in the process of implementing carbon sequestration programs. Some countries, such as Germany, have very active carbon markets.

Summary of Substitute Bill:

A committee is created which has the responsibility of developing state carbon sequestration implementation and certification plans. All members of the committee are appointed by the co-speakers of the House of Representatives and the President of the Senate. The committee expires December 31, 1999.

Members of the committee include representatives of: each political party in the House and Senate, the University of Washington College of Forest Resources, the timber industry, local government, environmental interests, tribal interests, the Department of Natural Resources, the Department of Ecology, the Department of Community, Trade and Economic Development, Washington State University College of Agriculture, agriculture interests, carbon-emitting industries, and farm forestry.

The committee is required to prepare a report to the Legislature by December 15, 1999. The report must include: carbon sequestration activities that could earn credits, a recommendation for a credit trading registration system, an estimate of current carbon storage capacity in the state, research of market opportunities, and procedures to allow the measurement, verification, and tracking of projects.

The committee is staffed by the House Office of Program Research and the Senate Committee Services. The House of Representatives and the Senate are both appropriated \$50,000 to complete the report.

Substitute Bill Compared to Original Bill: The substitute bill clarifies that all members of the committee are appointed by the co-speakers of the House of Representatives and the President of the Senate. Additional committee members from the Department of Natural Resources, Department of Ecology, Department of Community, Trade and Economic Development, Washington State University College of Agriculture, and

agriculture and carbon-emitting industries are added. The substitute bill requires that the committee expire on December 31, 1999.

The substitute bill removes requirements from the committee report including: an estimate of carbon storage capacity increases available through varying management regimes, and standards and protocols necessary to ensure that projects meet eligibility and emission reduction criteria. In addition, the committee is not required to establish two pilot projects. The substitute bill requires that the committee report include research on market opportunities.

Finally, the substitute bill removes the appropriation to the Department of Natural Resources, and appropriates \$50,000 to both the House of Representatives and Senate.

Appropriation: The sum of \$50,000 is appropriated to both the House of Representatives and the Senate.

Fiscal Note: Available.

Effective Date of Substitute Bill: Ninety days after adjournment of session in which bill is passed.

Testimony For: The Environmental Defense Fund has been involved in developing techniques to monitor carbon emissions. Markets are needed to trade credits. Ideas like this create business opportunities. A system to track trading is essential. Washington is likely to serve as a model on this issue. Practices that will sequester carbon include: reforestation, lengthening harvest rotations, reducing soil disturbances, limiting clearcuts, and retaining trees. A market like this is a win-win solution, but it is not a magic bullet. The income to landowners will be modest compared to timber revenues. In order to have a market, you not only need to calculate carbon sinks, but also carbon emissions, and not everyone will be happy about this. The securities trading market would be a good example to look to for tracking trades.

The Environmental Resources Trust has developed a demonstration project in Washington. There is no guarantee that if Washington develops a program it will be accepted on a global scale. However, it will help if the program is scientifically credible. This only gives the committee a few months in which to do a lot of work. This created misgivings at first, as landowners have seen a continual reduction in harvest levels. This is a good idea since it gives landowners an incentive to manage their properties well. Many people and businesses across the country are interested in this idea. The Rural Conservation and Development district's have been working on this idea for over a year. The United Nations Kyoto agreement requires signatory countries to reduce carbon to a percentage of 1990 levels. The United States has committed to a 33 percent reduction, which doesn't take into account land use. We need to create a

coalition of states to develop a voluntary market based system. This is good from an economic development standpoint.

The Columbia-Pacific Rural Conservation and Development District has been working with a timber company to locate a manufactured wood plant on the Olympic Peninsula. The company could build the plant if a credit trading system was in place. Instead, the plant may be locating in Canada, which has a trading system. British Petroleum has said that it will spend between \$500 million to \$1 billion in support of a market. The concepts found in this bill are good, but there are several other bills out there which also address the issues. The Legislature should perfect a bill. CH2M Hill has been studying global warming for the last 15 years. With 7,700 employees worldwide approximately 10 percent of our clients are concerned about global warming. This issue will dominate public policy debate for the next 30 years. Markets do currently exist, and independent companies invest in carbon sequestration now. This is often a risk-based decision which puts them in a more competitive position. There is momentum supporting this approach. The need to address global warming is real, and this is one alternative for doing so. An example of a huge market which currently exists, is the wetland mitigation market.

Conservation banking in California, Florida, and Massachusetts is sweeping the country and carbon sequestration could be included in this movement. This is a good segway into a necessary public policy debate. A program such as this would bring money into the United States which is currently going overseas. The Legislature could incorporate salmon restoration into a carbon sequestration market.

(With concerns): The Legislature should be commended on its interest in global climate change. However, the Legislature should be cautious in dealing with this issue. The Washington Environmental Council is interested in providing incentives for small landowners to maintain forest lands. Market systems do have problems, but are a valid way to provide these incentives. Taxation alternatives, including taxing-polluting activities, and tax-shifting would be a cleaner and simpler way to provide such incentives. The bill does not define "non-industrial landowner." The bill also provides a very short time line in which to complete the report. In addition, the bill adopts a committee structure that is very similar to the Forest Practices Board, which may not be a good idea.

The American Lung Association is not concerned about the bill itself, but about the precedent it might set for other types of pollutants. Friends of the Earth does not see a clear need for state government to become involved in a free market system such as this bill would establish. More than one representative from the environmental community is needed, since they are often a factious group. A carbon tax would be more effective in addressing global warming. Carbon levels have doubled in the last 100 years, and something should be done to address this. Pacificorp has taken carbon sequestration actions, including the planting of some trees in Oregon to offset carbon emissions. The

bill should remain focused on air pollutants. The committee makeup should include a coal-based electric utility, a manufacturing industry, and agricultural interests.

Testimony Against: None.

Testified: (In support) Gordon Smith, Environmental Defense Fund; Diane Ellison, Ellison Timber Properties; Jim Walls, Columbia-Pacific Rural Conservation and Development District; Scott Merriman, Department of Natural Resources; and Alan Wolfson, CH2M Hill.