

## **The Chicago Climate Exchange: Can money really grow on trees?**

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Most of us are familiar with the old saying "money doesn't grow on trees" and most of us have disproved that saying by growing trees for a variety of forest products for a profit. However, the Chicago Climate Exchange has the potential to provide a new opportunity for woodland owners to earn money from simply growing trees.

The Chicago Climate Exchange is the world's first voluntary, legally binding, rules-based greenhouse gas emission reduction, and trading system. It is a voluntary system because the United States has not ratified the Kyoto Protocols and is not bound by them. Therefore, there are no legal requirements that would force industry to reduce their greenhouse gas emissions.

The Chicago Climate Exchange is like a stock exchange for pollution. It provides a market for businesses to trade on the release and capture of carbon dioxide and other greenhouse gases. The commodity traded at Chicago Climate Exchange is the Carbon Financial Instrument<sup>®</sup> (CFI<sup>™</sup>) contract. Each contract represents 100 metric tons of CO<sub>2</sub> equivalents, the most common greenhouse gas. CFI contracts are comprised of Exchange Allowances and Exchange Offsets. Exchange Allowances are issued to emitting Members in accordance with their emission baseline and the Chicago Climate Exchange Emission Reduction Schedule. Exchange Offsets are generated by qualifying offset projects.

The Chicago Climate Exchange creates a real reduction in greenhouse gas emissions through a "cap and trade" system. Members agree to reduce the amount of greenhouse gases they release into the atmosphere by a percentage. That limit is the cap. Trading takes place when members release less than their limit. That leaves them with a surplus of emission credits. If a company manages to reduce its emissions by more than they are required to under their contract then they can sell the "right to pollute" to other companies who have been unable to meet their target.

Members of the Chicago Climate Exchange sign a binding agreement to reduce their greenhouse gas emissions by at least one percent each per year from 2003 to 2006 for a total of at least four percent by 2006 and six percent by 2010. The required percentage is based on an average of their annual greenhouse gas emissions from 1998-2001.

Members who reduce their greenhouse gas emissions below the agreed target have surplus allowances that they are able to sell or bank. Members that do not reach their reduction goal must purchase credits from other emitters who have exceeded their reduction goal or offset providers.

The opportunity for woodland owners to become involved with selling carbon credits is through the mechanism of Offset providers. Offset providers are individuals or organizations that have a qualifying projects that sequesters, destroys or displaces greenhouse gas emissions. Offset providers are registered members of the Chicago Climate Exchange who can sell offsets through tradable (CFI<sup>™</sup>) contracts as owners or aggregators of eligible projects.

Forestry projects that are eligible for emission offsets include afforestation and forest enrichment, urban tree planting, and, in specified regions, combined afforestation and forest conservation projects.

Forestry projects must meet the following specifications to qualify as a forestry offset project.

- ❖ Afforestation and forest enrichment projects initiated on or after January 1, 1990 on unforested or degraded forest land may qualify.
- ❖ Forest conservation projects may be eligible if they are undertaken in conjunction with afforestation on a contiguous site.
- ❖ Demonstration that entity-wide forest holdings are sustainably managed.
- ❖ Demonstration of long-term commitment to maintain carbon stocks in forestry.
- ❖ Use of approved methods to quantify carbon stocks

However, since Carbon Financial Instrument<sup>®</sup> contracts represent 100 metric tons of CO<sub>2</sub> most landowners will not have an individual project large enough to qualify. This is where Offset Aggregators come in to play. Offset aggregators are entities that serve as the administrative representative, on behalf of offset project owners, gathering multiple offset generating projects into a single Carbon Financial Instrument<sup>®</sup> contract. The Chicago Climate Exchange generally requires that Offset projects involving less than 10,000 metric tons of CO<sub>2</sub> equivalents per year should be registered and sold through an Offset Aggregator.

The Chicago Climate Exchange was founded by Dr. Richard L. Sandor. Dr. Sandor, who serves as the Chairman and CEO of The Chicago Climate Exchange. Dr. Sandor was named a Hero of the Planet by Time magazine for his founding of The Chicago Climate Exchange.

This is the second article in a series of articles on carbon credits. The next article will discuss the role of Offset Aggregators and the income potential of Forest Carbon Sequestration Offset Projects. The material for this article was gathered from the Chicago Climate Exchange website located online at <http://www.chicagoclimatex.com/>