

Legislative Analysis



ALLOW DNR TO SELL CARBON CREDITS OR ECOLOGICAL SERVICES

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House Bill 6067 as introduced
Sponsor: Rep. Scott VanSingel
Committee: Energy
Complete to 5-24-22

Analysis available at
<http://www.legislature.mi.gov>

SUMMARY:

House Bill 6067 would amend the Natural Resources and Environmental Protection Act to allow the Department of Natural Resources (DNR) to sell carbon credits or ecological services from the state forest and other state-owned lands, or from lands controlled by the DNR, if all of the following criteria are met:

- The carbon credits or ecological services are verified by a third party.
- The sale does not prevent or restrict continued land management as outlined by the DNR's land management plans or strategies.
- Unless otherwise provided by law, the proceeds from the sale are deposited into the Forest Development Fund. (Among other things, the Forest Development Fund is used for forest management operations and practices, defined as activities related to harvesting, reforestation, and other forest management and including such things as forest thinning, forest protection, wildlife management, and pest control.)

MCL 324.502

BACKGROUND:

Carbon credits

According to the Corporate Credit Institute, a carbon credit means a tradable permit or certificate that provides the holder of the credit the right to emit one ton of carbon dioxide or an equivalent amount of another greenhouse gas. Carbon credits are a financial product that can be used by a business (e.g., in the oil, transportation, and energy sector) to stay within a government-mandated cap on emissions. Individuals and businesses can also voluntarily choose to buy carbon credits to make up for carbon dioxide emissions. Carbon credits can be generated through various practices, such as agricultural or forestry management practices, or any projects that reduce or eliminate greenhouse gas emissions. For instance, a credit can be issued to a landowner growing a compliant forest, who can sell that credit to a business that uses it to offset its carbon dioxide emissions. By some estimates, the projected carbon credit market reached \$6.7 billion by the end of 2021.

(A carbon offset, on the other hand, typically refers to reducing or removing greenhouse gases or increasing carbon storage for emissions that may happen elsewhere. For example, planting trees would increase carbon storage, and an air traveler can purchase carbon offsets for his or her flight from companies who use the revenue to fund, among other things, renewable energy projects.)

Ecological services

Ecological services refer to the beneficial natural process that arise from healthy ecosystems, or, in other words, the products of ecosystem services. As an example, ecosystem services provided by a healthy forest ecosystem would include providing wildlife habitat or storage sites for minerals, purified air and water, fuel, and other goods as well as regulating climate, water, and pollination. Ecological services also include supporting services such as soil formation and cultural services that include recreation and tourism along with educational and cultural heritage values. Currently, ecosystems are stressed by overuse, pollution, climate change, or not being managed sustainably. If ecosystem services were given financial value, landowners (for example, the state of Michigan) could be compensated for the benefit that the land provides, and reforestation and other projects could be encouraged.¹

FISCAL IMPACT:

House Bill 6067 may increase revenue for the Department of Natural Resources by providing for the sale of carbon credits or ecological services from state forests or lands; the extent of this potential increase depends on the rate of sales. Potential increases in departmental costs are unclear, as the sales mechanism and possible administrative burden created by this change remains to be seen. Sales revenue would be credited to the Forest Development Fund, which received \$45.3 million in FY 2020-21 revenue and is used by DNR primarily to support Forest Resources Division programs including Adopt-a-forest, cooperative resource management, forest fire equipment, forest and timber management, and wildfire protection. The division and department are funded at \$62.3 million Gross (\$6.8 million GF/GP) and \$464.3 million Gross (\$48.6 million), respectively.

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■ This analysis was prepared by nonpartisan House Fiscal Agency staff for use by House members in their deliberations and does not constitute an official statement of legislative intent.

¹ See https://www.fs.fed.us/ecosystemservices/About_ES/index.shtml