

# Compliance Offsets Criteria: Comments

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## Introduction

Thank you for the opportunity to comment on CARB's preliminary approach to establishing criteria for compliance offsets under AB32, as discussed at the April 28, 2009 CARB public meeting. We commend CARB's thorough and thoughtful approach to the complex challenge of establishing a compliance offsets system.

New Forests is an investment management and advisory services firm specializing in forestry and land-based environmental markets – such as timber, carbon, biodiversity and water. New Forests is headquartered in Sydney, Australia, with offices in San Francisco, Washington D.C., and Kota Kinabalu, Malaysia.

New Forests Advisory, the company's consulting arm that is based in San Francisco, provides strategic and technical services related to carbon and other emerging environmental markets. We apply years of carbon market experience to assisting our clients: New Forests staff members participated in the committee that developed the previous CCAR forestry protocol, edited the Voluntary Carbon Standard's AFOLU guidelines, contributed to the development of the New South Wales Greenhouse Gas Abatement Scheme, and currently participate in the Forest Climate Working Group and the ANSI-accredited Forest Carbon Standards Committee.

Approaching the topic from the perspective of an offset project investor and consultant, New Forests has the following recommendations regarding CARB's preliminary approach to defining compliance offsets under AB32:

## Accept Climate Reserve Tons (CRTs) for compliance purposes

The California Climate Action Registry was established in 2001 following the passage of SB1771 and SB527 to protect and promote early actions to reduce GHG emissions. CCAR and its new parent organization, the Climate Action Reserve, have developed offset protocols that are widely viewed as the most thorough and credible offset standards on the market. CCAR protocols were developed in light of the AB32 requirement that offsets be real, permanent, quantifiable, verifiable, enforceable and additional. The Waxman-Markey discussion draft now being debated in the House Energy and Commerce Committee included language in §740 that would "grandfather" CCAR offsets, permitting projects registered under CCAR (now CAR) to create compliance offsets in the federal system for a defined period of time.

The endorsement of the federal government is indicative of the quality of CCAR/CAR's work. We suggest that ARB capitalize on the thorough work accomplished to date by CCAR by publicly indicating a plan to adopt CCAR protocols for compliance purposes.

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## **Develop a timeline for agreements with other jurisdictions**

ARB noted in the April 28 public meeting that ARB plans to issue compliance offsets for “projects in California or for projects implemented in a jurisdiction with an agreement with California.” To ensure access to an adequate supply of offsets and to the lowest-cost offsets available, we urge ARB to develop a timeline for reaching agreements with other jurisdictions and implement that plan. We suggest that this plan include both agreements with other states domestically and with states or provinces in foreign countries that are signatories to the MOU signed at the Governors’ Global Climate Summit in November, 2008.

## **Accept offsets from REDD projects**

The MOU signed between California and certain states and provinces in Brazil and Indonesia at the Governors’ Global Climate Summit in 2008 committed the signatories to “jointly develop[ing] rules to ensure that forest-sector emission reductions and sequestration could pass the strict criteria outlined in California’s AB 32 Scoping Plan”. Should rules be developed between the MOU signatories regarding protocols for offsets from Reduced Emissions from Deforestation and Degradation (REDD), or should the signatories choose to adopt existing REDD offset protocols developed elsewhere, we urge ARB to accept such offsets for compliance purposes.

As you know, tropical deforestation causes 17-20% of annual global greenhouse gas emissions. Reducing those emissions by avoiding deforestation is among the lower-cost mitigation opportunities available, and the available climate science suggests that we must significantly reduce tropical deforestation in the next ten years to maximize our chances of avoiding climate disruption. While regional and national REDD initiatives will be necessary to reduce deforestation with a minimum of leakage, national and regional initiatives will take years to develop the necessary baselines, inventory systems, accounting and policies. Project-level REDD activities can help deliver reduced deforestation in a time frame that is critical to the climate. By accepting project-level and national-level REDD offsets into the AB32 compliance cap and trade system, ARB would help catalyze needed investment in reducing GHG emissions from tropical deforestation.

## **Accept projects and credit vintages from 2007 onwards**

We suggest that ARB accept for compliance purposes offset credits from projects initiated under ARB-recognized protocols in 2007, after the late 2006 enactment of AB32. Credits of vintages from 2007 onwards should be accepted for compliance purposes. Doing so will recognize early action offset projects that were initiated with full knowledge of the forthcoming development of a compliance cap and trade program in California. Accepting credit vintages of 2007 onwards should help build an adequate offset supply for the early years of the cap and trade program, reducing the likelihood of price spikes as the program commences.

## **Offset credit ownership should be freely transferable**

Consistent with the federal system proposed in the Waxman-Markey discussion draft, compliance offsets should be freely transferable. Any person or legal entity should be able to own offsets. This will facilitate the flow of investment capital into offset project development and encourage liquid markets and rapid price discovery. Separate regulations can protect the market against excessive speculation and overly concentrated positions that lead to market power.



## **Take advantage of private-sector and nonprofit registry expertise**

The ARB presentation on April 28 asked “Which instrument should be used for tracking transfers of ownership?” We recommend that ARB take advantage of existing private-sector and nonprofit registry expertise by subcontracting the development of a registry to a private company or certifying multiple private registries for the task of tracking offset ownership and transfer. Nonprofits like CCAR/CAR and for-profit companies like TZ1 and APX could bring a wealth of experience to the task of designing and operating carbon offset registry system(s). Should ARB choose to certify a private registry for the compliance market, we recommend that ARB choose multiple registries to ensure competition and low transaction costs.

## **Promote quantification methodologies that achieve accuracy at the lowest cost**

We support ARB’s proposal that quantification methodologies be scientifically sound, credible and replicable. In general, we suggest that ARB periodically review quantification methodologies to ensure that available methodologies achieve the requisite accuracy at the lowest possible cost. For example, the rapid development of LIDAR and other remote sensing technology has the potential to significantly reduce monitoring and verification costs for forest carbon offset projects. Taking advantage of these technological developments will help deliver offsets at the lowest cost to the end user.

ARB also noted the necessity of comprehensive accounting of emission sources and sinks. In the context of biological sequestration projects, we suggest that some carbon pools should be excluded from mandatory accounting because a) their exclusion results in a more conservative estimate of carbon sequestered/emissions avoided, or b) studies show that the changes in certain carbon pools are nearly certain to be *de minimis* (<5% of total CO<sub>2</sub>e sequestration in aggregate for all such pools) for a particular type of project, and the costs of measuring that pools therefore outweigh the climate benefit.

## **Build on past work on biological carbon permanence**

ARB noted in its April 28 presentation that biological carbon should be sequestered for 100 years to be considered permanent, noting the options of contracts, conservation easements, buffer reserves and third-party insurance to mitigate planned and unplanned reversals.

We support the 100-year permanence requirement, and we suggest that ARB rely and build upon past work on this topic, most notably by the recent CCAR/CAR forest project protocol working group. ARB should avoid short-term contracts (such as CDM ICER and tCERs) in the context of forest carbon projects. Biological sequestration projects should make use of buffer reserves and third-party insurance (when the latter becomes available) to address unplanned reversals. Conservation easements should not be required of landowners, but they should reduce buffer withholding if adopted. Contracts and deed restrictions should be used to manage planned reversals.

Importantly, the cost of monitoring and verification should be minimized over the long term while maintaining reasonable certainty regarding the presence or absence of reversals. We suggest that forest carbon projects be able to transition into a “monitoring period” after the bulk of offset credits have been issued. Projects that have transitioned to a monitoring period should file an annual report on their project and pay a low fee to fund random sampling of all projects to identify unreported reversals.



### **Avoid financial and “barrier” tests for additionality**

ARB noted in its April 28 presentation that it is considering financial and barrier tests (as used in the CDM) to test for additionality. We suggest that projects should be required to be additional to legal and regulatory requirements and common practice in a relevant baseline assessment area. We recommend that ARB avoid requiring financial additionality and barrier tests, as these are too easily “gamed.” Additionality should not be a question of the counterfactual intention of the project developer/landowner, as this is impossible to evaluate. We further suggest that ARB consider a combined “performance standard” and “constrained project modeling” approach: project developers should be able to choose between a relatively stringent performance standard test for additionality and a project-specific modeling approach (the latter being most relevant for biological sequestration projects). In a performance standard, projects in excess of a certain benchmark are considered additional; those below are considered non-additional. Project developers/landowners could opt for a lower-cost performance standard test if they desire.

