

Public Meeting

International Offsets in a California Cap-and-Trade Program

July 30, 2009

California Air Resources Board

California Cap-and-Trade Rulemaking Timeline

- Focus in 2009: work through implications of different issues and policy decisions
- Focus in 2010: finalize program design and develop regulatory language
- End of 2010: Board action on cap-and-trade regulation
- Extensive public process throughout

Purpose of Meeting

- Discuss how international offsets could play a role in a California cap-and-trade program
- Stakeholders are asked to provide written comments on this topic to ARB by September 11th
(<http://www.arb.ca.gov/cc/capandtrade/comments.htm>)

ARB Compliance Offset Development Process (Public Meetings)

April 28th

- Criteria for Compliance Offsets

May 21st

- Reviewing and Approving Offset Projects and Protocols

July 27th

- Linkage of Allowances and Offsets

Today

- International Offsets

Meeting Agenda

- Opening Remarks (15 minutes)
- Staff Presentation (30 minutes)
- Round-Table Discussion (2 hours)
- Other Issues (15 minutes)
- Adjourn

Outline for Today's Presentation

- International offsets in the Scoping Plan
- Current international offsets systems and international and national discussions on offsets approaches and reforms
- Preliminary staff thinking on international offsets in a California cap-and-trade program

Scoping Plan: Compliance Offsets

- All offsets must meet high quality standards (AB 32 requirements)
- The majority of emission reductions must be met through action at capped sources
 - No more than 49% of reductions can come from offsets
- No geographic limits
 - Specific mention of international offsets as a possibility

Scoping Plan: International Offsets

Why have international offsets?

- Foster policy change in developing world
- Encourage spread of clean, low-carbon technologies outside of California
- Cost-containment / offset supply
- Reduce emissions related to imported commodities
- Explore sectoral approaches to reduce competitiveness / leakage concerns in carbon-intensive sectors (e.g., cement)

Current International Offsets Systems

- Some voluntary markets, but principal system is Clean Development Mechanism (CDM) under Kyoto Protocol
- CDM uses a project-based approach to generate compliance offsets
 - Project developers propose emissions reductions projects in developing countries
 - Must be additional, third-party verified, etc.
 - If approved by CDM Executive Board, can sell offsets to capped entities in developed countries
- Criticism of CDM
 - Difficult to evaluate additionality on individual project basis
 - Some project types highly criticized (e.g., HFC-23)

Current Discussions on International Offsets (UNFCCC)

- Developed countries pushing for CDM reform
- Proposed move from project-based offsets to “sectoral crediting” at least in highly competitive sectors and rapidly industrializing countries (e.g., China, India)
- Sectoral crediting basics:
 - Establish emissions baseline for developing country in a particular sector (covers all emitters in that sector, perhaps with a de minimis threshold)
 - Developing country must reduce emissions below baseline before it earns marketable emissions reduction credits
 - More on this later...

Current Discussions on International Offsets (U.S. Federal)

- House recently passed climate bill
 - Would allow international offsets from a developing country if offsets meet certain standards (similar to AB 32) and U.S. is party to a bilateral or multilateral climate treaty with offset host country
 - Expresses preference for sectoral approaches, and directs U.S. EPA to identify sectors/countries where only sectoral crediting would be permitted
 - Would accept UNFCCC-approved offsets (e.g., CDM), but project-based would not be allowed after 2016 in sectors identified above
- Debate now moves to Senate

Questions for Design of a California Cap-and Trade Program

- Should ARB accept existing international offsets?
- Should ARB accept project-based offsets, accept sectoral crediting only, or a combination of the two?
- How could ARB enforce international offsets?

How Could Sectoral Crediting Work?

- Engage major developing countries at the national or subnational level
- Before crediting, require a cooperative agreement with the developing country or state/province establishing a sectoral crediting baseline/ target, requirements for MRV, etc.

How Could We Engage Developing Countries?

- Might first engage developing countries at the sub-national sectoral level
 - Many developing countries lack capacity (MRV, etc.) for national sectoral crediting
 - More progressive states/provinces may have greater capacity in the short-term
 - Sub-national “pilots” could help build capacity for eventual national sectoral agreements

What Could an Agreement with a Developing Country Contain?

- Agreement (e.g. MOU, cooperative principles) could
 - Identify sector(s) for cooperation
 - Provide technical, institutional, regulatory and policy collaboration and assistance
 - Establish the crediting baseline/target
 - Require adequate MRV to ensure AB 32 requirements are met

Cooperative Agreement (1): Identify Sectors for Cooperation

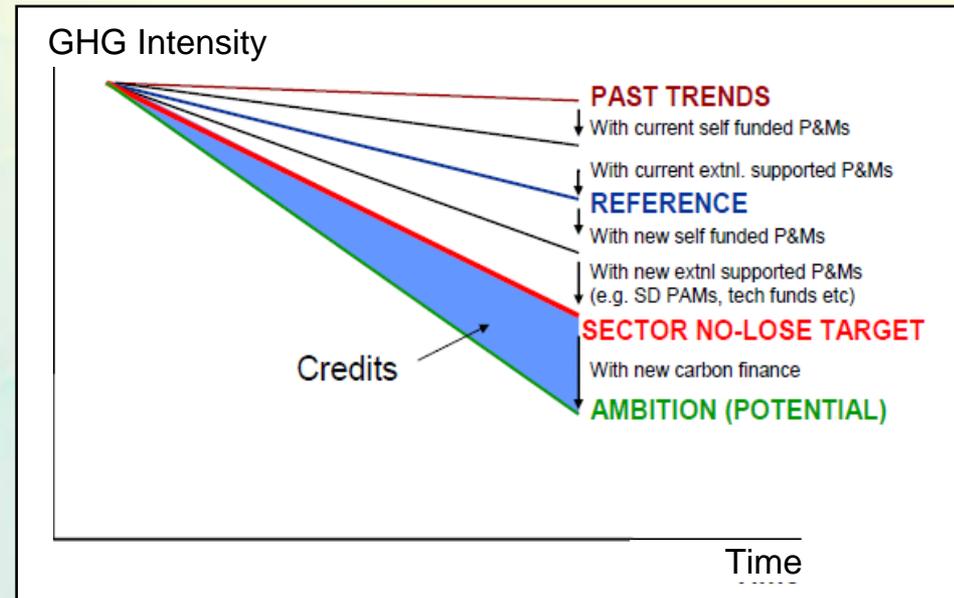
- Factors
 - Sectors where California has expertise
 - Sectors with competitiveness/leakage concerns
 - States/provinces interested in collaboration
- Examples of Potential Sectors & Provinces
 - Cement (Shandong, China)
 - Energy (Guangdong & Jiangsu, China)
 - Forestry (Amapá, Amazonas, Mato Grosso & Para, Brazil; Aceh & Papua, Indonesia)
 - Other sectors in the future (e.g., Transportation)

Cooperative Agreement (2): Pre-Crediting Capacity Building

- Identify local capacity level and needs
 - Data availability
 - MRV capacity (e.g., training, other environmental reporting programs, etc.)
 - Technology
 - Regulatory capacity and governance
 - Compliance and enforcement capability
- Potentially finance early capacity building

Cooperative Agreement (3): Establishing Crediting Baseline/Target

- Could establish “no-lose” intensity target for developing country sector
 - Target designed to ensure additionality
- Emissions reductions beyond the no-lose target eligible for sale
 - No penalty for not meeting the no-lose target (but no credits either)



Cooperative Agreement (4): Monitoring, Reporting, Verification

- Adequate MRV is prerequisite for crediting
 - Needed to assess performance in relation to sector no-lose target and beyond
- Options
 - Joint MRV between California and developing country province/state
 - Third-party independent verification

Preliminary Staff Thinking: Offsets from Other Systems

- ARB could accept other systems' offsets if they meet all AB 32 criteria
- Would need process to evaluate other systems and determine their eligibility
- Might require additional criteria for some offset types to ensure similar rigor to California-approved/issued offsets
- Wait-and-see on proposed CDM reforms

Preliminary Staff Thinking: Project-Based Offsets

- Staff shares others' concerns about project-based CDM, and would favor sectoral approaches
- However, may need early supply of offsets when cap-and-trade begins in California in 2012
 - Sectoral crediting systems have not yet been implemented

Preliminary Staff Thinking: Project-Based Offsets (2)

- Therefore, might consider limited project-based CDM
 - Certain project types with high sustainability criteria (e.g., black carbon/efficient cook stoves)
 - Projects in least developed countries
 - Phase out by country, province/state, sector, etc. in favor of sectoral crediting
 - Exclude in sectors where sectoral crediting initiated

Preliminary Staff Thinking: Sectoral Crediting

- Sectoral crediting is preferable in long-term
 - Easier to ensure additionality
 - Can help control leakage
 - May foster broader policy changes in developing countries
- But is also more complex than project-based
 - Has not yet been implemented
 - Requires more development time and capacity building in developing countries
- Staff exploring a sectoral crediting approach

How Could ARB Enforce International Offsets?

- ARB could require all international offsets to be backed by origin country regulations that could
 - Establish and track ownership
 - Ensure against double counting of emission reductions
 - Provide transparency
 - Be third-party verified
- Projects located outside CA: Need a mechanism (e.g. MOU) to ensure enforceability
- Others?

Comments

- Questions during the workshop can be sent to: ccworkshops@arb.ca.gov
- Written comments on preliminary staff thinking are requested by September 11th; please submit comments to:
(<http://www.arb.ca.gov/cc/capandtrade/comments.htm>)

Team Leads for Cap & Trade Rulemaking

Sam Wade, Mary Jane Coombs	Cap setting and allowance distribution
Ray Olsson	Market operations and oversight
Brieanne Aguila	Offsets and cap-and-trade project manager
Claudia Orlando	Electricity
Manpreet Mattu	Reporting and energy efficiency
Bruce Tuter, Mihoyo Fuji	Industrial sectors
Stephen Shelby	Offsets
Karin Donhowe	Broad scope fuels
Mihoyo Fuji	Marginal abatement costs and leakage related issues
David Kennedy, Stephen Shelby, Barbara Bamberger, Mihoyo Fuji, Jeannie Blakeslee, Judy Nottoli, Jerry Hart	Impact analyses (environmental, economic, localized, small business, public health)

For More Information...

- ARB's Cap-and-Trade Web Site
 - www.arb.ca.gov/cc/capandtrade/capandtrade.htm
- To stay informed, sign up for the Cap-and-Trade listserv:
 - www.arb.ca.gov/listserv/listserv_ind.php?listname=capandtrade
- Western Climate Initiative
 - www.westernclimateinitiative.org