



Potential Amendments for Sector-Based Offset Credits in California's Cap-and-Trade Program

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International Engagement



California Agreements with States and Regions throughout the World



Background on Sector-Based Offset Crediting

- ❑ Sector-based Offset Credit Program – Jurisdiction-wide crediting program in subnational jurisdiction in developing country
 - ❑ GHG emission reductions measured across a whole sector within a jurisdiction's geographic boundary, rather than within a single project boundary.
 - ❑ Cap-and-Trade Regulation allows sector-based offset credits issued by approved sector-based offset credit programs for compliance if the Board finds they meet rigorous criteria
 - ❑ Criteria for sector-based offset credits are the same as for domestic project-based offset credits
 - ❑ Real, quantifiable, verifiable, quantifiable, permanent, enforcement, additional

Background on Sector-Based Offset Crediting (2)

- ❑ Benefits:
 - ❑ Developing jurisdiction-wide, sector-based program incentivizes low-emissions planning throughout jurisdiction (helps mitigate emissions leakage)
 - ❑ Jurisdiction-wide planning may lead to reductions in other sectors within jurisdiction
 - ❑ Crediting begins after meeting sectoral performance standard, ensuring additionality
 - ❑ Cost-containment for California covered entities within existing 8% offset quantitative usage limit
 - ❑ Sector-based offset limit:
 - ❑ 3rd Compliance Period—4% of total obligation

Why the tropical forestry sector?

- ❑ Focus: Reducing Emissions from Deforestation and Forest Degradation (REDD) Programs
- ❑ Addresses significant portion of global emissions (roughly 11%-14%)
- ❑ Tropical forest sector is a heavily studied sector
- ❑ California program already includes domestic forestry offsets
- ❑ Multiple co-benefits, including:
 - ▣ Link to California precipitation
 - ▣ Biodiversity
 - ▣ Forest-dependent community livelihoods
 - ▣ Water management
 - ▣ Soil conservation

Why is California interested in tropical forests?

- ❑ AB 32 calls for California to take leadership role
- ❑ Climate change cannot be addressed without addressing deforestation, including tropical deforestation
- ❑ Many co-benefits of reducing deforestation
 - ❑ Benefits to preserving California's forests
 - ❑ Research indicates link between tropical deforestation and reduced California precipitation
- ❑ Important for cost-containment for Cap-and-Trade covered entities
- ❑ Cost-effective mitigation mechanism
- ❑ Engages developing countries in low-carbon growth
- ❑ Called out in 2008 AB 32 Scoping Plan and again in 2014 First Update to the AB 32 Scoping Plan

Current tropical forest work in California

- ❑ Governors' Climate and Forests Task Force (GCF)
 - ❑ Formed in 2008
 - ❑ Information and best practice exchange between 29 subnational jurisdictions to date
 - ❑ Each jurisdiction is enacting legal structures to improve forest management
 - ❑ Annual meetings to share experiences between members who are developing jurisdiction-level REDD programs
 - ❑ Rio Branco Declaration – goal of 80% reduction in tropical deforestation by 2020, contingent on financing

Current tropical forest work in California (2)

- ❑ MOU signed with Acre, Brazil and Chiapas, Mexico
 - ❑ Established in 2010, established REDD Offset Working Group (ROW)
 - ❑ Technical and policy experts worked for two years to develop set of recommendations; presented in July 2013
 - ❑ Recommendations assessed in ARB staff white paper
- ❑ Ongoing engagement with U.S. Department of State
 - ❑ Federal climate negotiators welcome California's REDD work
 - ❑ Continued coordination to facilitate shared understanding and discussions with other jurisdictions
 - ❑ USAID has consulted with California regarding that agency's efforts on tropical forests

Regulatory Requirements for Sector-Based Offset Crediting Programs

- ❑ Cap-and-Trade Regulation includes placeholder provisions for sector-based crediting, and for REDD programs
- ❑ Sections 95991-95995
 - ❑ Sector plan
 - ❑ Transparent MRV system
 - ❑ Transparent performance metric system
 - ❑ Offsets are real, quantifiable, permanent, verifiable, enforceable, and additional
 - ❑ Public participation and consultation required in the program design process
 - ❑ If jurisdiction allows nested projects, projects must fit within program accounting and include additional project-level MRV requirements

What are others doing on tropical forests?

United States of America

- ❑ Spends ~\$130 million per year on REDD readiness/capacity building. Financing vehicles through State Department / USAID

Kingdom of Norway

- ❑ Norway's International Climate and Forest Initiative supports the development of REDD around the world with \$517 million per year

Many Others

- ❑ Dozens of tropical forest countries are progressing towards REDD Readiness (Brazil, Peru, Mexico)
- ❑ Subnational efforts, including GCF jurisdictions
- ❑ Voluntary markets
- ❑ Indigenous coalitions and other communities have begun developing standards and programs for implementing REDD initiatives
- ❑ UNFCCC Paris Agreement – Article 6

Why is California leadership needed now?

Capacity Building → Compliance

- ❑ Important initiatives have begun, but there still exists an ambition and financing gap to longer-term design and implementation
- ❑ Next-Step: Recognition in Compliance Markets
- ❑ California is well-positioned:
 - ❑ Existing Cap-and-Trade Program
 - ❑ Historic engagement in this sector
 - ❑ Predicted offset shortfall, so a need within California's program
 - ❑ Already includes international offset credits (e.g., offsets issued by Québec)
 - ❑ Can set robust standards others will follow
 - ❑ Overall climate leadership – recent example being the Under 2 MOU

ROW Recommendations

- ❑ Policy Considerations
 - ❑ Require robust community engagement and social safeguards
 - ❑ Effective government enforcement and oversight
 - ❑ Legal framework

- ❑ Technical Considerations
 - ❑ Setting forest inventory baselines/reference level
 - ❑ Tracking system/registry
 - ❑ Ensuring real reductions

Past concerns include

- ❑ Some commenters have expressed preference for limiting emissions reductions to California
 - ❑ Offsets are only eligible for use up to 8% of an entity's compliance obligation
 - ❑ Difficult to approve new domestic offset protocols - most emissions already being regulated in California
 - ❑ 100% of Cap-and-Trade proceeds spent on reducing GHG emissions in California
 - ❑ Many existing programs to address GHG emissions, as well as criteria and toxic air pollutants in California
 - ❑ Section 38564 of AB 32 specifically calls for California to consult with other jurisdictions to facilitate the development of integrated, cost-effective, international GHG reduction programs

Past concerns include

- ❑ Some commenters expressed concerns that REDD projects negatively impact rights of local people
 - ❑ Public participation and consultation at the local level is a regulatory requirement
 - ❑ Increasing engagement by indigenous and local community coalitions (e.g., COICA and AMBP)
 - ❑ California is only considering sector-based crediting programs at the jurisdiction scale – not one-off projects
 - ❑ Best-practice safeguard standards like REDD+SES or the UN-REDD Program's Social and Environmental Principles and Criteria
- ❑ Some commenters concerned about reversal
 - ❑ Similar to our domestic forestry protocol; manage risk through buffer pool, large jurisdiction, "own effort" provisions

Programs most ready for inclusion

- ❑ Acre, Brazil
 - ❑ Advanced policy
 - ❑ 1st operational framework for jurisdictional REDD
 - ❑ Social Safeguards – Indigenous rights to resource use, public participation by indigenous/local groups ensured
 - ❑ Forest-dependent communities benefit from carbon revenue
 - ❑ Advanced technical considerations
 - ❑ Deforestation reference level and target level established
 - ❑ Carbon registry already operating (issuance, tracking, and retirement of credits)
 - ❑ German development bank bridge financing aiding to continue program until carbon revenue begins
- ❑ Other Advanced programs
 - ❑ Brazilian states of Mato Grosso, Amazonas, and Para
 - ❑ Mexican states, engaging with national government

Potential Next Steps

- 1) Stakeholder workshops and technical meetings (3 scheduled for next few months)
 - ❑ Reference levels, crediting baselines, scope, quantification, verification, enforcement, social and environmental safeguards
- 2) Continued coordination with partners
 - ❑ GCF, Québec and Ontario, U.S. Department of State
- 3) Administrative Procedures Act Requirements (rulemaking)
- 4) SB 1018 Governor Linkage Findings
 - ❑ Jurisdiction's program must be equivalently stringent with enforceability and no liability for California
 - ❑ Similar type of review as Québec linkage

Summary

- ❑ We cannot fully address climate change without addressing emissions from deforestation of tropical forests
- ❑ GCF jurisdiction partners are developing robust programs
- ❑ California recognition can set high standards and leverage further emissions reductions and co-benefits
- ❑ Limited domestic offset protocols because most emissions in California already regulated
- ❑ Offset credit shortfall predicted beginning in 2018
- ❑ Sector-based offset crediting provisions already exist in the Cap-and-Trade Regulation
- ❑ Continue to engage on technical design elements through workshops and rulemaking process