Via Electronic Mail

December 13, 2010

Kevin M. Kennedy, Ph.D.
Assistant Executive Officer
Office of Climate Change
Air Resources Board
1001 I Street
Sacramento, California 95814

Dear Dr. Kennedy:

We, the undersigned, are a number of Brazilian-based carbon offset project developers and NGOs, and we would like to offer our comments on the Proposed Regulation Order regarding the California Greenhouse Gas Cap-and-Trade Program mandated by AB-32. Together, the undersigned organizations have more than 5.6 million hectares under management or development on behalf of private landowners as part of REDD+ and/or afforestation/reforestation projects, primarily in the Amazonian biome of the area designated within Brazil as "the legal Amazon." Our current and prospective projects are located in areas of high deforestation pressure in the states of Acre, Amazonas, Mato Grosso, Pará, Rondônia, and Tocantins. Our hope is that our collective effort to generate forest-based offset credits that are real, additional, quantifiable, permanent, verifiable, and enforceable will contribute not only to slowing climate change but also to improving the livelihoods of communities in forest areas and protecting invaluable ecosystems in the Brazilian Amazon.

First of all, we greatly welcome California's leadership in establishing a cap-and-trade system as part of its overall approach to reducing greenhouse gas emissions. We particularly welcome the role that international offsets can play in the Californian compliance market. We also note that while it is a separate but complementary initiative, the Governors' Climate & Forests Task Force (GCF) has been extremely important in trying to define and discuss concrete ways for sub-national players to contribute to the regulatory frameworks, institutional readiness, and conceptual work necessary for properly incentivizing sustainable avoided deforestation in key tropical forest countries. We know that a number of Brazilian states are participating in this effort, and we greatly applaud the groundbreaking Memorandum of Understanding signed between the states of California and Acre with the goal of bringing sub-national REDD programs into California's cap-and-trade program.

Second, we appreciate the enormous challenges involved in designing and operationalizing a compliance system for a state and economy the size of California's. In this regard, we wish to offer any assistance that a group of small but committed companies can bring to your task. This might be particularly relevant if you desire to learn more about the perspectives – and potential – of the Brazilian private sector in financing, developing, and bringing to market credible, high-quality and relatively low-cost offsets that California's compliance buyers can have full faith and confidence in.

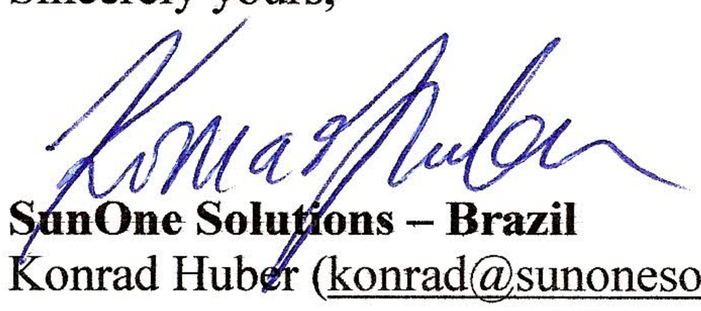
Third, we wish to note a number of areas where we would recommend that the ARB consider analyzing and addressing as it looks for robust, viable solutions for the design of the system that would allow international offsets from forest carbon projects to be sold into California's compliance market:

- **Standards and Criteria:** ARB's goal is to ensure that offset credits be real, additional, quantifiable, permanent, verifiable, and enforceable, and we will seek to contribute vigorously toward this goal. Project-level activities will be crucial for ensuring a supply of high-quality, reasonably priced REDD-based offset credits, and we would support multiple pathways to compliance standards for nested approaches. By the same token, we would urge that ARB set out a clear timetable for developing and approving the rules regarding sectoral/nested REDD.
- **Protocols and Methodologies:** While necessary approaches, like the nesting of project-level emissions reductions within sub-national programs are being worked out, project developers are keen to know which protocols/methodologies they should invest time in understanding and applying to the design of prospective projects. We would encourage ARB to consider as streamlined a process as possible – while ensuring the highest standards of quality – in reviewing and approving appropriate protocols and methodologies from established voluntary standards and registries like the American Carbon Registry, Climate Action Reserve, and especially the Voluntary Carbon Standard as it is the most widely-used and robust voluntary standard in use around the world. The recognition by California of the Voluntary Carbon Standard for compliance-based purposes would send a clear signal to project developers and governments around the world that the voluntary market has the tools and robustness to be integrated with the regulated market, and we can thus address climate change more quickly and effectively.
- **Private-Sector Role in the "Proof-of-Concept" Stage:** Given the potentially significant role that the private sector could play – whether through financing and/or project development – we would recommend that private-sector actors based in tropical forest countries be represented as actively as possible in relevant forums and consultative processes. As individual companies or as a group, we are happy to participate in such forums and processes and/or recommend potential participants. We believe that the private sector will be the main driver for sustainable forest management – and can play a similarly pivotal role for REDD – with regard to the scale-up necessary to achieve significant results in emission reductions worldwide.
- **Systems for Coordination and REDD Accounting:** In particular – and related to the question of nested REDD above – we believe the private sector should contribute actively to the debates on, and designs of, systems for coordination and REDD accounting, and we would be grateful for opportunities to do so.
- **Early Action/"Pre-Compliance":** ARB should consider as early a start date as possible for qualifying offset projects, ideally in advance of when commitments for emissions reductions would begin. Emitters subject to compliance requirements who offset emissions voluntarily using protocols/methodologies already approved by ARB in anticipation of the start of compliance should be incentivized in a concrete fashion.
- **Facilitating Early-Stage Financing:** One of the most significant hurdles – if not the most significant one – for the majority of private forest landowners in a country like Brazil is the upfront capital required to design and launch a rigorous project that can then be validated, monitored, and verified effectively. Many such forest-owners are land rich but relatively cash poor, and commercial credit is unavailable for developing projects in

what is still considered by lenders as the embryonic and high-risk realm of carbon markets. Landowners also lack the technical expertise required for project development and approval. In a robust, well-designed project, such start-up costs should in theory be readily recouped after the initial verification(s), but that leaves a financing gap for committed, well-intentioned forest-owners to assume such costs at risk. Financial markets and investors in particular can of course help enormously in this regard, but such novel, high-risk investments will need time, a strong regulatory framework underpinning project design and approval, and consistent signals from policymakers to take hold before a forest carbon market can grow to scale. Innovative approaches to providing risk insurance and/or seed money could potentially assist California in encouraging low-cost, high-quality offset credits in significant volumes for compliance buyers that also incentivize private forestland owners who often face significant opportunity costs.

Once again, these are initial comments that we wish to share, and we of course would welcome further opportunities to engage with ARB and/or other stakeholders related to the design of the Californian system.

Sincerely yours,



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