

California Air Resources Board
1001 I Street, Sacramento, California 95814
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IETA COMMENTS ON CALIFORNIA AIR RESOURCES BOARD'S SECTOR-BASED OFFSETS WORKSHOP & WHITE PAPER

The International Emissions Trading Association (IETA) welcomes the opportunity to share comments on California Air Resources Board (ARB)'s Public Workshop and [Staff White Paper](#) related to *"Evaluating the Potential Role of Sector-Based Offset Credits Under the California Cap-and-Trade Program, including from Jurisdictional 'Reduced Emissions from Deforestation and Degradation (REDD+)' Programs"*.

OVERVIEW

IETA continues to support ARB's global policy and market leadership on climate change, including the State's remarkable efforts to cooperate and explore market linkages with partner jurisdictions. We remain a strong, consistent multi-sector business voice for broad access **to real, permanent, quantifiable, verifiable and enforceable emission reductions and removals**. Among other benefits, enabling broad access to offsets helps to: lower cap-and-trade costs; promote clean innovation and investment across uncovered sectors; drive climate cooperation across borders; and realize co-benefits.

IETA **welcomes ARB's growing support for the potential inclusion of sector-based offsets** into California's program, and we recognize the State's impressive REDD+ global leadership through partnerships, such as the [Governors' Climate and Forests Task Force](#) (GCF), and technical efforts, such as the REDD+ Offset Working Group (ROW). While considering the inclusion of these new offsets into California's program, potentially as early as the third compliance period, IETA encourages ARB to take into account the following items, summarized in more detail below:

- 1. Select Guiding Principles for Consideration;**
- 2. Transparent, Robust, and Enforceable MRV Frameworks;**
- 3. Clear & Workable Process Timelines;**
- 4. Clear & Consistent Regulatory Compliance Language;**
- 5. Adequate Capacity & Resources to Process Projects;**
- 6. Coordination with International & Domestic Jurisdictions; and**
- 7. "Collaborative Mechanisms" for Added Program Support.**

1. SELECT GUIDING PRINCIPLES FOR CONSIDERATION

As part of this rule-making process, we encourage ARB to support the inclusion of sector-based (including REDD+) offset credits into California's program **as early as practical**. Some of the design principles that will be critical to the success of sector-based, including REDD+, offsets include: ensuring cost-containment; achieving real net reductions; and preserving the overall integrity of California's program. Simultaneously, ARB activities and decisions should ensure that all existing and potential regulation, including those related to offset program improvements:

- Avoid future potential for double-counting;
- Avoid adversely impacting California's current offset program;
- Improve, rather than impede, program implementation and administrative efficiencies; and
- Do not restrict future efforts for California to successfully link with other jurisdictions.

2. TRANSPARENT, ROBUST, AND ENFORCEABLE MRV FRAMEWORKS

By allowing sector-based offsets into California's program, IETA trusts that ARB will ensure that **transparent, robust and enforceable monitoring, reporting and verification (MRV) sector-based frameworks** will govern their inclusion and compliance use. With this, we agree with Staff, ROW and other stakeholders that California is well-positioned to allow credits from REDD+ credits from jurisdictional and/or nested projects into its compliance market.

With respect to REDD+, California and partner jurisdictions would not be advised to "reinvent the wheel" in terms of developing new MRV frameworks for jurisdictional and nested REDD+; nor should they adopt bespoke (non-scalable) MRV approaches with individual states. Such a move could create market uncertainty, limit global applicability, and potentially strand ongoing REDD+ projects. Instead, where possible, **ARB should tap existing global standards for bringing REDD+ supply into California.**

There exist three broad initiatives, currently being led by Offset Project Registry (OPR) organizations and summarized below, which California could look to as potentially generating early "wins" with the sector.

First, following a comprehensive three-year multi-stakeholder development process (including many of California's prospective partner jurisdictions), the **Verified Carbon Standard (VCS) Jurisdictional and Nested REDD+ (JNR) Framework** was established. JNR, the world's only accounting and crediting platform for jurisdictional REDD+ programs, also establishes a clear pathway for the nesting of projects and guarantees the permanence of credited reductions through the deep and diversified VCS buffer pool. Moreover, as pointed to during ARB's Public Workshop, Acre (Brazil) is already using JNR to account for emission reductions and generate compliance-grade credits. Acre is also applying the REDD+ Social and Environmental Standards to establish rigorous safeguards and ensure local communities benefit from the

program. By using both best practice standards, Acre is arguably already meeting the carbon and social-environmental recommendations of California's ROW.

Second, the **Climate Action Reserve (CAR)'s Mexico Forest Protocol** is broadly considered a highly rigorous, project-level standard that is currently producing high quality credits from enhancements from improved forest management, agroforestry, and reforestation. This sector-based accounting framework is currently under development in Mexico.

Third, the **American Carbon Registry (ACR)'s Nested REDD+ Standard** provides technical guidance for registration of REDD+ projects that are nested within a jurisdictional accounting framework. ACR's Nested REDD+ Standard builds on Winrock's experience designing REDD methodologies for a broad range of stakeholders. In addition, ACR's REDD Methodology Modules can be used to account for methodological components not otherwise addressed by a jurisdictional accounting framework.

3. CLEAR & WORKABLE PROCESS TIMELINES

As highlighted in IETA's October 2015 [initial submission](#) to ARB on *Potential 2016 Amendments to California's Cap-and-Trade Regulation*, to ensure offset program functionality and efficacy administrators must clearly define the offset project review and credit issuance process, including timelines and regulatory compliance requirements. They also must clearly identify protocol development, modification, verifier training schedules and processes.

We are encouraged by ARB's ambitions to consider moving forward with a successful, first-of-its-kind adoption of a California compliance REDD+ protocol, effective by 2018. However, if the Board approves this near-term inclusion of sector-based offsets, a clearly-defined and transparently communicated timeline and process regarding REDD+ protocol development, regulatory proceedings, stakeholder reviews, verification training, etc. must be crafted and published as soon as possible.

4. CLEAR & CONSISTENT REGULATORY COMPLIANCE LANGUAGE

In numerous communications with ARB, IETA has articulated the market risks and challenges associated with California's current approach to offset invalidation. In addition to urging ARB to amend the *Cap-and-Trade Regulation* to provide clarity on ARB's invalidation investigation timing, process and overall communications with stakeholders, we also encourages ARB to clearly articulate – via additional guidance and/or harmonizing language across the regulation and compliance offset protocols - the definition and boundaries for determining regulatory compliance for projects.

5. ADEQUATE CAPACITY & RESOURCES TO PROCESS PROJECTS

In IETA's [October 2015 submission](#) on *Potential 2016 Amendments to California's Cap-and-Trade Regulation*, we stressed the need for ARB to develop well-defined, transparent procedures and timelines for all project application reviews and issuances. This matter could prove more urgent, and certainly more relevant, should California introduce international sector-based and REDD+ offsets into the California market.

As the workload under California's existing offsets program builds over the coming years, ARB must ensure that its offsets pipeline is not jeopardized by insufficient resources being devoted to the REDD+ effort at the expense of existing projects; this particularly holds true for anticipated legal resource requirements. In October 2015 alone, 75 Improved Forest Management projects were listed with OPRs taking the number of "active projects" to over 300.

Should regulators approve REDD+ offsets, especially during the third compliance period, IETA strongly encourages ARB to increase capacity to help successfully develop and implement one or more workable compliance REDD+ protocol(s). Increased Staff capacity and bandwidth would help avoid diversion from existing – and necessary – existing offset project activities.

6. COORDINATION WITH INTERNATIONAL & DOMESTIC JURISDICTIONS

Rigorous coordination and frequent, transparent communications between California and (REDD+/Sectoral) Jurisdictions at all stages of program review, approval and issuance are critical to success. Building implementation coherence and strong cross-border coordination and communications should go beyond simply government-to-government engagement. Processes to embed regular and constructive non-governmental engagement with project developers, experts, and other market participants (on both "sides of the border") should be top-of-mind.

Today's highly-dynamic UNFCCC and "bottom-up" environment will be critical, yet challenging, for California to navigate to 2020 and beyond. We increasingly see cross-over between domestic policies in developing countries (UNFCCC non-Annex or international offset project "hosts"), including Brazil and Mexico; and international post-2020 reduction pledges (e.g., UNFCCC Intended Nationally Determined Contributions or INDCs) in both developing and developed countries. Should California-Quebec choose to accept sector-based/REDD+ credits from developing countries, such as Brazil and Mexico, prospects of future double-counting must be carefully monitored and avoided. Navigating these "bottom-up" and "top-down" developments, and potential cross-overs, will require significant resources to draft, monitor, and maintain regulatory language; actions that must be supported by focused and well-resourced institutional and administrative capacities. IETA stands ready to support ARB in navigating these quickly-evolving policy and market landscapes.

Closer to home, a key objective of California’s program is to encourage potential linkage with additional US-Canadian jurisdictions. In our view, it appears that California’s trailblazing efforts are gaining traction across a number of Canadian provinces (e.g. Ontario) and US states (e.g. Oregon, RGGI). If extending the domestic reach of California’s program remains a priority goal, **ARB should recognize how inclusion of international sector/REDD+ offsets might enable or hinder these growing US-Canadian sub-national linkage opportunities.**

7. “COLLABORATIVE MECHANISMS” FOR ADDED PROGRAM SUPPORT

Based on IETA’s experience and engagement with regulators across a range of offset programs worldwide, we believe that some of California’s existing offset implementation challenges – or future potential challenges associated with the introduction of international sector-based and REDD+ credits – can be properly assessed and ameliorated, provided the proper support mechanisms and additional multi-sector resources are provided to ARB.

We recommend that California’s amended *Cap-and-Trade Regulation* allow for the creation of new offset support mechanisms, such as a Multi-Sector Offsets Advisory Panel and Offsets Technical Working Group(s). Should the recommendation be accepted, we further encourage ARB – likely in coordination with ROW – to consider a Working Group 2.0 or standing advisory panel related to sector-based and REDD+ offsets. For initial high-level thoughts on the potential role and mandates for these “collaborative mechanisms” to support ARB, see IETA’s [October 2015 Submission](#) on *Potential 2016 Amendments to California’s Cap-and-Trade Regulation*.

In Conclusion

Once again, IETA appreciates this opportunity to record our comments related to the potential inclusion of sector-based, including REDD+, credits under California’s Cap-and-Trade Program. Our multi-sector membership remains committed to supporting the successful growth and evolution of a fully-functional, linkable California carbon market to help achieve the state’s climate goals in a cost-effective manner. If you have any questions, or further clarification is required, please do not hesitate to contact IETA’s North America Director, Katie Sullivan, at sullivan@ieta.org.

Sincerely,



Dirk Forrister
IETA President and CEO

ABOUT IETA. For over 15 years, IETA has been the leading global voice of the business community on the design, implementation and evaluation of flexible mechanisms to harness the power of markets and private sector innovation to tackle climate change. Worldwide, our team and multi-sector membership work closely with governments (sub-national, national, and UN levels), multi-laterals, leading academics, and environmental groups to inform the design, expansion and overall functionality of these critical mechanisms. Our 140+ member companies include some of North America's - and the world's – largest power, industrial, and financial corporations, including leaders in oil & gas, electricity, manufacturing, mining, chemicals, and paper. Members also include leading firms in: data assurance and certification; brokering, trading and finance; engineering and clean technology; offset project development, aggregation, registries; and legal and advisory services. www.ieta.org

