

To: Rajinder Sahota, Chief
Climate Change Program Evaluation Branch, Industrial Strategies Division
California Air Resources Board, 1001 I Street, Sacramento, California 95814
Online Submission: http://www.arb.ca.gov/lispub/comm2/bcsubform.php?listname=sectorbased4-ws&comm_period=1

IETA COMMENTS ON CALIFORNIA AIR RESOURCES BOARD'S LINKAGE & SECTOR-BASED OFFSETS WORKSHOP

The [International Emissions Trading Association](#) (IETA) welcomes the opportunity to share comments on California Air Resources Board (ARB)'s 28 April workshop on potential amendments to the Cap-and-Trade Regulation related to linkage with Ontario, and the prospective inclusion of international sector-based/REDD+ offset credits into California's program. We continue to support California's leadership, use of market tools, and cooperation with other jurisdictions to reach climate goals at least-cost.

1. LINKAGE

A. Linkage as a Valuable Cost-Containment Mechanism

The distinctive feature of a cap-and-trade program is its ability to **deliver certainty on reduction of GHG emissions at least-cost to consumers and businesses**. California's ambitious post-2020 climate targets require significant, cross-sectoral accelerations in reductions. It is therefore more important than ever that effective cost-containment elements are included in California's future carbon policy regime.

Cross-border linkage continues to be a valuable cost-containment tool in California's climate policy toolbox. The benefits of linking are clear: bigger, broader markets provide a wider range of abatement opportunities, leading to deeper reductions across major emitters. Linkage increases compliance flexibility and market liquidity, driving down program costs while driving-up clean projects, jobs, and investment opportunities.

B. Embracing & Building-Upon Market Linkages

As California develops its post-2020 climate strategy, we encourage officials to embrace, explore, and build-upon market linkages, both across North America and the globe, including the incorporation of international sector-based/REDD+ offset credits. These efforts support California's objective in AB 32 (Section 38565) to facilitate development of integrated and cost-effective international GHG reduction programs. California's trailblazing efforts have created unparalleled expertise at a time when climate market mechanisms are gaining major traction across numerous North American jurisdictions. The conditions are ripe for ARB to exercise its leadership and experience to drive cross-border cooperation and resulting environmental and economic benefits.



IETA strongly supports ARB’s commitment to prioritize harmonizing the Cap-and-Trade Regulation amendment process with linked partner jurisdictions. Cross-border harmonization not only reduces duplicative efforts and lowers administrative costs, but also establishes a clear, consistent set of rules and procedures for market participants. This consideration is especially important for business facing regulatory exposure across multiple jurisdictions. California should ensure that a partner jurisdiction’s program rules and processes are complementary and readily adaptable to rapidly-changing policy landscapes. This is particularly important, and with near-term relevance, when looking at Ontario.

C. Linkage Considerations with Ontario

IETA strongly supports California’s linkage with Ontario’s cap-and-trade program and encourages ARB to closely track and informal provincial climate legislative and regulatory developments and economic impact assessments. We applaud the process made to date on harmonization and alignment of core design rules, standards, and joint market infrastructure (e.g., auction platforms, tracking systems, etc.) between California, Quebec and Ontario.

A current area of concern about **Ontario’s proposed design relates to point of regulation**, specifically where compliance obligation is placed at the supplier/distributor level for in-province electricity. Unlike California’s program design, Ontario’s proposed rules see Ontario gas-fired generators having their emissions covered by the upstream natural gas distributor. IETA’s concerned that Ontario’s proposal may result in significant, and potentially problematic, “market power” concerns. According to some estimates, over 50% of all Ontario compliance obligations will likely be held and managed by only a handful of entities. If Ontario insists on moving forward with its proposed gas electricity point of obligation, the market is expected to see unintended impacts to participation, liquidity, efficacy, and therefore achievement of cap-and-trade program goals of reaching reduction targets at least-cost.

D. Linkage Considerations with International Jurisdictions

As ARB considers linking with international jurisdictional programs, including Acre (Brazil) and Chiapas (Mexico), **great care must be taken to ensure that such efforts improve, rather than hurt, California’s existing program.** It is also important that these specific (international sector-based/REDD+) near-term efforts do not restrict or limit opportunities with existing or prospective US/Canadian partners.

IETA also requests that Staff provide greater clarity regarding SB 1018’s requirement that the “jurisdiction with which the state agency proposes to link has adopted program requirements for greenhouse gas reductions, including, but not limited to, requirements for offsets, that are equivalent to or stricter than those required by” California.¹ Specifically, greater clarity is sought on whether independent offset standards operating at a level similar to California’s current protocols, such as VCS Jurisdictional Nested Redd (JNR), could serve as a potential means for international jurisdictions demonstrating conformance with California standards and other REDD+ specific rules, for example, regarding MRV, leakage, and reversals.

¹ [California Senate Bill No. 1018 \(2011-2012\) Government Code Section 12894 \(f\)\(1\).](#)

2. INTERNATIONAL SECTOR-BASED OFFSETS

Offsets are a vital cost-containment tool to any functional and flexible carbon pricing program. As part of a robust cap-and-trade system, these credits play a key role in maximizing climate benefits in the least time for a given expenditure, while reducing or sequestering GHGs as efficiently as possible. Offsets also create financial incentives for non-compliance actors to engage in the climate solution, while broadening environmental consciousness and co-benefits.

Offsets are important not only in terms of environmental and socio-economic benefits, but also in providing viable prospects for cross-border linkage, collaboration and increasing levels of climate ambition. California's international leadership and move to link with other jurisdictions, including cooperation with Brazil and Mexico, reflects this reality.

A. Safeguard Considerations

In addition to the issues discussed in IETA's previous submissions,² safeguard considerations are of utmost importance to ensure credibility for linkage with international jurisdictions.

Social and environmental risks can be addressed through robust safeguards, which exist in the form of REDD+SES ([slides 8 & 17](#) of ARB's presentation). While other safeguard mechanisms provide a sound set of principles and criteria, REDD+ SES also includes detailed indicators accompanied by a detailed set of guidelines on how the standards should be used to assess safeguards applications in a participatory and transparent manner.

The State of Acre in Brazil has demonstrated that it is feasible to monitor safeguards in a very detailed way, covering a comprehensive range of information important for safeguards and ensuring credibility of their report through a participatory and transparent process engaging a full range of stakeholders. Acre used a detailed and comprehensive framework for their assessment based on the international best-practices on safeguards defined in the REDD+ Social & Environmental Standards (REDD+ SES). The REDD+ SES Initiative conducted an International Review (involving a representatives of Indigenous Peoples from Acre and an expert on REDD+ and safeguards from another area of Brazil) that confirmed that Acre completed the full ten-step process defined in the REDD+ SES Guidelines requiring a high level of participation and transparency.³

² See [IETA Comments on California Air Resource Board's Sector-Based Workshop & White Paper](#), submitted 8 April, 2016.

³ [REDD+ SES International Review: State of Acre, Brazil](#), November 2015.



Conclusion

IETA appreciates this opportunity to record our comments related to linkage and international sector-based/REDD+ considerations. Our members remain committed to supporting the successful evolution of flexible market mechanisms to help achieve California's climate goals at least-cost. If you have questions, or further clarification related to this submission, please contact IETA's Director of the Americas, Katie Sullivan (sullivan@ieta.org).

Sincerely,

A handwritten signature in blue ink that reads 'Dirk Forrister'. The signature is fluid and cursive, with the first name 'Dirk' being more prominent.

Dirk Forrister
IETA President and CEO