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VCS Comments on Staff White Paper Evaluating Sector-Based Crediting, including from REDD Programs

The Verified Carbon Standard (VCS), a non-profit organization and ARB-approved Offset Project Registry (OPR) for the California cap-and-trade program, welcomes the opportunity to offer comments on the Staff White Paper and associated workshop on Evaluating the Potential Role of Sector-Based Offset Credits, including from Jurisdictional REDD Programs.

Tropical forest loss and degradation is one of the leading causes of global climate change. At the same time, REDD+ activities have great potential to reduce emissions while generating a multitude of social and environmental co-benefits. By allowing the use of REDD+ credits in its compliance market, California could provide critical funding to support and scale up efforts to reduce deforestation and forest degradation in its partner jurisdictions, and globally, by establishing positive market signals. **Based on our eight-year experience as the world's leading standard setter for REDD+ projects and programs, VCS believes that REDD+ can be robustly accounted for and used to generate compliance-grade offsets. We strongly support the potential inclusion of REDD+ credits within California's Cap-and-Trade Program.**

VCS provides these comments from the perspective of the most trusted standard in the voluntary carbon market, with over 60% of forestry projects around the globe applying VCS Program rules and requirements.[1] In addition, VCS established, with a multi-stakeholder group including many of the world's leading REDD+ programs, the Jurisdictional and Nested REDD+ (JNR) framework to provide a rigorous and globally applicable standard for REDD+ accounting at the jurisdictional scale, with clear guidelines on how projects can be integrated (ie, "nested") within these larger-scale programs.

Many of the leading REDD+ jurisdictions are applying JNR. Indeed, the state of Acre in Brazil, which has a Memorandum of Understanding with California to potentially supply REDD+ credits into California's cap-and-trade program, is currently undergoing JNR validation and verification. In the first half of 2016, Acre expects to generate compliance-grade credits using JNR, which would meet California's strictest offset requirements.

Our comments below focus specifically on how California could leverage the use of existing independent standards, such as JNR, to address many of the key challenges it is facing, including providing covered entities needed flexibility in respect of their compliance strategies and building market confidence in REDD+ assets, all while maintaining the environmental integrity of the program.

In our opinion, the adoption of third-party standards could simplify California`s engagement with and ensure the integrity of California's offset programs, while providing needed transparency to California and international stakeholders, and facilitating the scaling up of REDD+ market-based solutions around the world.

While donor payments for REDD+ performance may be based on lower (ie, less rigorous) requirements, when emission reductions are used as offsets (as in the case with California's cap-and-trade scheme) the highest bar of atmospheric integrity must be satisfied. Furthermore, with the additional scrutiny of a new sector like REDD+ entering

[1] State of Forest Carbon Finance 2015. Ecosystem Marketplace: http://www.forest-trends.org/releases/p/sofcf2015

California, it will be critical for the associated emission reductions to be of the highest quality and beyond reproach. Our comments and recommendations are therefore concentrated on the items where a third-party standard could add unique value in maintaining the integrity of the system and providing confidence that any emissions allowed in California will be offset by reductions that are real, permanent, quantifiable and verifiable.

1. Third-Party Auditing and Verification of Jurisdictional Programs

The White Paper and the recommendations from the REDD Offset Working Group (ROW) recognize the importance of third-party auditing for validation and verification of partner jurisdiction programs. For third-party standards to be trusted they need to ensure that auditors are duly qualified and accredited, and that there is appropriate quality control and oversight of their work.

Under the VCS JNR, all validation/verification bodies (VVBs) must either be accredited to ISO14065 by an International Accreditation Forum (IAF) member accreditation body such as the American National Standards Institute (ANSI), or be accredited as a Designated Operational Entity (DOE) by the United Nations Framework Convention on Climate Change (UNFCCC). In addition, the JNR Program requires that auditors hold accreditation demonstrating expertise in a given sectoral scope (eg, forestry), and be experienced with local issues and the particularities of the jurisdiction being audited. The accreditation bodies have oversight of the performance of VVBs, which includes yearly witness and office assessments to ensure compliance with the relevant accreditation standard. On top of this, VCS performs periodic performance monitoring of the VVB's validation and verification services to further ensure the quality of services performed under the VCS Program. VCS' performance monitoring occurs in the form of reviews of project documentation submitted after validation and verification as well as on-site audits.

In addition to the JNR documentation being assessed by a VVB with accreditation to Scope 14 (Agriculture, Forestry and Other Land Use, or AFOLU), the documentation is assessed by a JNR expert panel. This panel is comprised of three experts (including a local one) who have applied to VCS for this designation and have demonstrated an expertise in REDD.

California should require that the REDD+ credits entering its market be independently verified using internationally recognized best-practice standards and/or norms. Without such requirements and controls, the credibility and veracity of reported reductions may be questioned or may not be considered to be on par with reductions from other sectors.

2. Diversified Buffer to Address Reversal Risks

The role and importance of buffer mechanisms is well stated in the White Paper and the ROW report. The ROW recommends that buffer volumes be pooled from different jurisdictions and be diversified (to spread risks across a portfolio). However, to be effectively pooled, buffer credits should be fungible and be of the same quality (ie, follow the same approach in determining the risk rating/contribution). This may prove difficult if the buffer pool is composed of volumes from different country- or state-specific accounting frameworks, which may have different requirements and therefore variable quality characteristics. Such challenges can be amplified in cases where partner jurisdictions contribute their `own effort` through additional buffer deposits.

In order to effectively manage reversal risk, **VCS supports the ROW recommendation that buffer pools used by California to ensure the permanence of emission reductions be comprised of credits from a diversity of REDD+ programs and projects with the same or similarly robust rules for buffer determination.**

Leveraging existing global standards, like JNR, could be helpful in this regard. VCS pioneered the development and use of the buffer approach seven years ago for application to REDD+ projects, and the system is now widely recognized as the most workable and robust way to address reversal risks. Under JNR, which leverages the world's most proven buffer system of the VCS, non-permanence risk in jurisdictional REDD+ programs and nested projects is assessed through the use of a risk analysis, using the *AFOLU Non-Permanence Risk Tool*, for (nested) projects, and the *JNR Non-Permanence Risk Tool*, for jurisdictions. These tools determine the number of credits to be deposited in the jurisdictional pooled buffer account based on the risk profile of the project or program. The jurisdictional pooled buffer account holds non-tradable buffer credits and is a single account that holds the same quality of buffer credits for all jurisdictional programs and nested projects. The VCS buffer pool is also already populated with more than six million tons of buffer credits, providing an immediately diversified pool, even in the early stages of California's acceptance of REDD+ programs, when only one linkage agreement may be in place. This is a unique value proposition of tapping the VCS/JNR buffer mechanism for REDD credits coming into California.

3. Accounting for Leakage

GHG emissions leakage from activity shifting, market effects or ecological impacts can reduce the effectiveness of emission reductions from REDD+ initiatives and should be limited and controlled to the extent possible, with unavoidable leakage needing to be quantified and deducted from the net emission reductions reported. Leakage can occur from nested projects to the jurisdictional area or vice-versa, between different jurisdictions, or from deforestation to forest degradation.

JNR includes strict leakage accounting requirements covering all potential risks related to both programs and projects, and offers a Leakage Tool, which provides streamlined and consistent options for estimating, mitigating and monitoring leakage.

4. Avoiding Double Counting

Double Counting risk is higher and more likely to occur when jurisdictions and existing nested REDD+ projects are using different accounting standards and modalities.

JNR allows for existing REDD+ projects to be integrated as nested projects that are fully consistent with jurisdictional accounting. The JNR requirements provide comprehensive, clear and consistent guidance for how such projects should be nested under the jurisdictional program. For example, total GHG emission reductions and removals from nested projects or programs are deducted from the larger (or higher-level) jurisdiction's total emission reductions and removals, to prevent any double counting.

5. Reconciling Emission Reductions between the Jurisdictional Program and Nested Projects

The ROW recommends that REDD+ accounting at the jurisdictional and project levels be reconciled to ensure environmental integrity. Reconciliation is much more difficult if different programs/standards are used by the jurisdiction and projects located within. Therefore, **VCS recommends that integrated jurisdictional and project standards be used to ensure the accounting adds up and that atmospheric integrity is maintained.**

JNR is the world's only standards framework that enables the accounting of both REDD+ jurisdictional programs and projects nested within them, including the ability to incorporate other project standards that may emerge in the future. Having an integrated accounting framework is key to avoid discrepancies or inconsistent accounting approaches between levels. To prevent such issues, JNR requires jurisdictional REDD+ programs to determine which level of monitoring (ie, at national, subnational or project scale) will be used to reconcile any differences in accounting results between levels. For example, a jurisdiction may choose to designate the jurisdictional- or the project-level monitoring results to be used for reconciliation. In addition and as noted above, JNR provides guidance for harmonizing jurisdictional and nested project accounting over time, meaning that once projects are fully nested (eg, they are consistent with the jurisdictional baseline), such discrepancies should not arise.

In addition to being able to demonstrate carbon accounting integrity, it is also critical that nested projects have robust social and environmental safeguards in place. VCS therefore echoes the ROW recommendations, also called out in the ARB White Paper, "…**that all nested projects within a jurisdictional program (if any) be similarly independently verified using best-practice social and environmental standards like the Climate, Community & Biodiversity Standards (CCBS).**"

In summary, VCS supports the inclusion of REDD+ credits as part of California's Cap-and-Trade Program, making sure that only robust GHG standards with the highest-quality offsets are accepted. This will be needed to ensure atmospheric integrity, maintain confidence in California's Cap-and-Trade Program, provide covered entities needed flexibility, and attract business interest and market investment in the sector. **VCS recommends that ARB address this by requiring or giving preference to credits that are issued under jurisdictional programs that employ international best-practice accounting and crediting frameworks, such as VCS JNR.**

As stated in the ROW report,[2] credits issued under such third-party standards frameworks could be recognized and converted by California for compliance use. **In addition, tapping third-party standards organizations (such as VCS) could facilitate linkage between California and its partner states**, as has been highlighted in the ROW recommendations.[3]

We appreciate the opportunity to provide our comments and recommendations as California considers how best to incorporate REDD+ into the state's cap-and-trade program and look forward to continued engagement as the process moves forward. Please feel free to get in touch with us if you have any questions or would like to discuss any of this feedback.

Sincerely,

David Antonioli
Chief Executive Officer

[2] From page 28 of ROW report: "Another [option] would be for the Administrator to recognize and convert credits issued by other entities such as the Partner Jurisdiction or an approved third party program such as the Climate Action Reserve (CAR), Verified Carbon Standard (VCS), or American Carbon Registry (ACR). …it may be easier for both technical and legal reasons for the Administrator to recognize credits issued by Partner Jurisdictions or a third party-program rather than issue credits directly for emissions reductions achieved in foreign jurisdictions."

[3] From page 59 of ROW report: "With respect to indirect linkage, California and its partner jurisdictions should consider linking through a third-party offset provider or standards organization (e.g., CAR, VCS, ACR etc.) or through an independent organization formed to facilitate such linkage such as WCI, Inc."