Shell Energy North America
4445 Eastgate Mall, Suite 100
San Diego, CA 92121
Tel 1+ 858 526 2109
www.shell.com/us/energy

October 29, 2018

California Air Resources Board
1001 I Street
Sacramento, CA 95814

RE: Shell Energy North America (US), L.P. Comments to the California Air Resources Board Tropical Forest Standard and Draft Environmental Analysis

To: Air Resources Board:

Shell Energy North America (US), L.P. ("Shell Energy") welcomes this opportunity to provide comments on the above referenced. As noted in Shell Energy's comments to the Cap and Trade regulation amendments submitted last week, as a preliminary matter, ARB's principal resources should be devoted to considering applications for offset projects that ARB intends to consider for California compliance. It is not clear if California intends to allow credits for reduction of deforestation into its cap and trade system. The Tropical Forest Standard ("Standard"), as drafted, is an important piece of work, however, it isn't likely to result in projects that can be utilized for compliance in the near term. Shell Energy urges ARB to first focus its limited resources on developing protocols and reviewing offset applications under the new Direct Environmental Benefits standards.

Shell Energy's observations and comments to the Standard are as follows. Generally, standards that lay out the minimum requirements for NBS credits to be imported into regimes that allow offsets are generally needed. Further, to the extent such standards are reasonable, they should be adopted across other regimes to mitigate against proliferation of differing 'minimum' standards.

The Standard is meant to apply to "native forests within the tropics." What is and is not "the tropics" is not further defined therefore, it is not evident if this is intended as referencing land only between the Tropics of Cancer and Capricorn, or is subject to interpretation as a climate zone. More clarification is needed to understand what the specific set of minimum standards is required for countries with in "the tropics."

The Standard references a need for the jurisdiction to account for residual leakage outside the implementing jurisdictions' borders ("activity-shifting leakage" and "market-shifting leakage"). Interest in controlling against trans-jurisdictional leakage is a conceptual ideal that has found no pragmatic solution. Limiting credits in one country due to activity that occurs in a second country is baseless.

The Standard requires a reference level established over 10 consecutive years using "high quality" remote sensing and ground-level data. This requirement introduces two challenges. First, it imposes up to a 10-year delay before credits can be generated. Second, it creates a perverse incentive to accelerate deforestation during those 10 years. The Standard also states that the reference period is valid only if an ETS links to it within 24 months of its completion. A country's efforts to reduce deforestation should not be tied to the linking decision of a country with an ETS.

The Standard requires the jurisdiction to set its crediting baseline 10% below the measured 10-year reference level to account for the possibility of "direct or indirect" implementation of "emission reductions or enhanced sequestration requirements or incentives affecting tropical deforestation." Defining "additionality" is a subjective exercise however, declaring a 10% haircut with no justification is not a solution. Shell Energy supports an international accounting standard whereby the national emission registry of the exporting country is increased by the amount equal to the (tonnes of) NBS credits that have been exported.

Permanence and reversal risk are addressed by requiring a minimum of 10% of total issued credits to be held in a buffer account. Shell Energy supports the concept of buffer accounts but finds no justification for California's minimum requirement. Further, it is, at best, administratively complex to determine which credits from a landscape scale program have been reversed and therefore should be cancelled from buffer accounts across multiple countries to which credits have been exported.

Finally, the Standard proposes that the buyer/holder is responsible for replacing emission credits that are invalidated ("subsequently found to [have been issued] in error"). Given the minimum standards defined and the underlying quantification, measurement and verification of reductions, it is not reasonable to require the buyer to retain this liability. The party with the most influence over an outcome in which credits are invalidated is the issuing government.

Regards,

MAMilner

Marcie Milner, Vice President
Regulatory Affairs, Shell Energy North America
4445 Eastgate Mall, Suite 100
San Diego, CA 92121
Phone: 858.526.2106
Cell: 858.405.2241
Fax: 858.320.2606