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Mr. Jason Gray
Mr. Sean Donovan
California Air Resources Board
1001 I Street
Sacramento, California, 95814

RE: Comments on the Role of International Forest Offset Credits in the California Cap-and-Trade Program

Dear Mr. Gray, Mr. Donovan, and the California Air Resources Board,

These comments are submitted on behalf of the Center for Biological Diversity regarding the Staff White Paper on "Scoping Next Steps for Evaluating the Potential Role of Sector-Based Offset Credit Under the California Cap-and-Trade Program, Including from Jurisdictional 'Reducing Emissions from Deforestation and Forest Degradation' Programs," published by the Air Resources Board on October 19, 2015, and the public workshop on October 28.

We appreciate the effort and consideration that went into the development of this white paper, which provides a useful overview of a number of the key issues and problems associated with the development of a CA-REDD program and a sub-national approach to international offsets. These comments are intended to identify issues in need of further assessment and, in many cases, solicitation of specific public participation, in order to inform ARB's decision regarding whether or not to proceed with the development of an international forest offset program.

1. The specific need for an offsets-based REDD program must be clearly distinguished from the broader need to address tropical rainforest destruction.

The white paper and the ARB presentation identify tropical deforestation and degradation as responsible for 11 to 14% of global greenhouse gas emissions and state that "We cannot fully address climate change without addressing emissions from deforestation of tropical forests," indicating that this is a reason for implementing an offsets-based REDD program.¹ However, this statement fails to acknowledge--as was nowhere acknowledged in either the white paper or

¹ Staff White Paper on "Scoping Next Steps for Evaluating the Potential Role of Sector-Based Offset Credit Under the California Cap-and-Trade Program, Including from Jurisdictional 'Reducing Emissions from Deforestation and Forest Degradation' Programs," at 4. ARB presentation, October 28, 2015, at 10 and 42.

the presentations at the workshop--that a credit-based offsets program does not reduce overall greenhouse gas emissions, but only shifts the location of those emissions.

This distinction was further confused, however inadvertently, by the presentation by the representative from Norway. It is my understanding that Norway program for reducing tropical deforestation is a grant-based effort, and not based on offset credits. This important distinction was very unclear at the workshop, as was every presentation regarding the effectiveness of tropical forest conservation programs or the need for global investment in such programs.

There is no doubt regarding the importance of tropical rainforests as ecological treasures, as sources of the world's air and precipitation, and as carbon stores. The Center for Biological Diversity is strongly in favor of efforts to protect and conserve tropical rainforests worldwide. However, this is a different issue from the questions of whether an offsets-based REDD program is the most effective way to do so or the best option for California.

The conflation of an offsets-based program with all efforts to reduce tropical deforestation introduced another confusion to the discussion: It was often unclear whether communities living in or near proposed REDD projects are in support of REDD in general--international investment in tropical rainforest conservation for the purpose of reducing greenhouse gas emissions--or in an offset-based program specifically. This must be clarified if the public is to understand the position of our intended international partners.

2. How would a CA-REDD program fit into a global strategy to address the root causes of tropical deforestation?

An offsets-based REDD program does not necessarily address the root causes of tropical deforestation, such as the international demand for palm oil and beef cattle, including demand in California and the United States. California should consider all options for addressing these root causes directly, including reducing domestic demand for those products contributing to rainforest destruction.

There is some mention in the white paper that providing funding through an offsets-based program could capitalize positive market changes in rainforest regions. If this is the intention of a CA-REDD program, the program should specify which markets and operations in which regions would be funded, what proportion of their overall funding needs might be provided through an offsets program, and what criteria we might look to as indicators of success in each region.

3. What is the potential that an offsets-based CA-REDD program could undermine other forest conservation activities within partner jurisdictions?

The program should specifically consider whether there is potential for an offsets-based REDD program to undermine voluntary activities or other efforts within any partner jurisdiction or other jurisdiction planning to join the program in the future. There is the possibility that a jurisdiction could purposely pursue high levels of deforestation in order to demonstrate a high baseline level in anticipation of an international REDD program and to capitalize on land-use

permits ahead of anticipated restrictions. There is also the possibility that voluntary actions and other funding-dependent activities would be undermined by the expectation or hope of obtaining higher economic returns through an offsets-based REDD program.

4. The potential benefits of an offsets-based CA-REDD program should be compared to benefits of in-state reductions.

As mentioned above, a credit-based offsets program does not reduce overall greenhouse gas emissions, but only shifts the location of those emissions. By looking for offsets elsewhere, we're missing the opportunity to obtain co-benefits from reducing emissions in California. . This offers some "cost-containment" to California emissions sources (reducing the cost of compliance for in-state polluters) but simultaneously reduces investment in renewable energy and cleaner technologies in California, as well as forfeiting the potential air quality co-benefits associated with in-state reductions.

ARB should be clear in precisely what benefits and co-benefits are expected to come from an international forest offsets program, and offer a comparison to potential benefits from in-state reductions. The white paper and presentation discuss the potential of co-benefits of a REDD program, including increased rainfall in California, but provide very little in terms of specifics or quantification. At the same time, the presentation indicates that California's cap-and-trade program is facing an "offset credit shortfall beginning in 2018."² This implies that in-state reductions would become increasingly necessary in 2018 as offset credits decreased in volume, resulting in increasing in-state co-benefits.

5. Achieving environmental co-benefits depends on specifically identifying the desired benefits and including specific criteria within the regulation and agreements.

The presentation states that "California recognition can set high standards and leverage further emissions reductions and co-benefits."³ The U.S. Forest Projects Compliance Offset Protocol currently in use for domestic forest projects largely defers to compliance with state and local laws as the criteria for compliance with respect to many potential environmental impacts. Similarly, the regulation authorizing linking with Quebec, as well as the Western Climate Initiative agreements, contain no environmental criteria other than compliance with state and local laws. Most existing forestry and other environmental laws were not written to address the specific impacts of offset programs. Achieving environmental and social co-benefits will depend greatly on setting enforceable standards that go beyond what is already legally required in a jurisdiction.

6. Is there opposition to an offsets-based REDD program within the partner jurisdictions?

The October 28 workshop included presentations from many supporters from partner jurisdictions and no voices of opposition or criticism. Is there significant opposition to an offsets-based REDD program in any of the proposed partner jurisdictions? If there is opposition

² Presentation at 42.

³ Presentation at 42.

from local communities, hearing those concerns is crucial to accurately assessing the program as a whole, developing measures for social safeguards, and ensuring the free, full, informed consent of local populations and indigenous communities within partner jurisdictions. I highly recommend that ARB actively reach out to communities in partner jurisdictions to determine if there is local opposition, and make those concerns available to the public.

7. Interstate and international leakage is an extremely challenging problem for a sub-national, offsets-based REDD program.

A CA-REDD program that requires inventory and reporting at the jurisdictional level reduces the risk of leakage within the jurisdiction but it remains highly vulnerable to interstate leakage within the same country, or international leakage to other tropical forest regions.

The REDD Offset Working Group recommended addressing leakage risk in part by increasing production of goods such as wood--or, presumably, cattle and palm oil--within the jurisdiction, to reduce the market forces that lead to leakage.⁴ This presumably involves land-use decisions and intensified industrialization of cleared lands that could have substantial negative social and environmental implications for local communities and the surrounding forest. How would a CA-REDD program account for these impacts and avoid them? In many jurisdictions it would surely not be sufficient to simply require that local environmental laws are not being violated, as states where substantial deforestation is occurring do not generally have either high environmental standards or strong enforcement mechanisms. In addition, it would be extremely difficult to monitor activities outside of forest project boundaries.

The REDD Offset Working Group also recommended measuring interstate and international leakage and accounting for that leakage within the jurisdiction's program, reducing credits by the estimated amount of leakage.⁵ The white paper states that "ARB's Forest Projects Compliance Offset Protocol already employs a form of [this] recommendation."⁶ While it is true that the domestic forest protocol includes a leakage measure, that measure simply applies a standard, market-wide leakage risk factor to all forest credits. This approach does not take into account the specific leakage risk for any particular project and does not discourage leakage, as all projects are subject to the same standard risk factor. Using this approach in a REDD program would likely invite gaming through interstate leakage. Furthermore, developing a market-wide leakage risk will require global monitoring of forest activities and the sourcing of products responsible for recent deforestation trends.

Containing leakage is both incredibly important to the integrity of an offsets-based REDD program and incredibly difficult to do. I expect this issue to be one of the greatest challenges to the development of a CA-REDD program, and I strongly recommend that ARB launch the public discussion of this provision as early as possible to provide as much time as possible for proposal development, public input and international review.

⁴ White paper at 26.

⁵ White paper at 26.

⁶ White paper at 26.

8. There is a high risk of crediting non-additional activities if the process for determining jurisdictional baselines does not account for year-to-year fluctuation and regional trends.

While the risk of non-additional credits depends in large part on how low the baseline is set, it is also necessary to look at each jurisdiction individually to take into account year-to-year fluctuation and recent trends. A recent single year with an exceptionally high rate of deforestation, or the categorization of recently converted palm plantations as forests, for instance, could dramatically affect the baseline.

Conclusion

Thank you for this opportunity to raise these issues. I look forward to working with you as ARB continues to address these questions. Please contact me if you have any questions.

Sincerely,



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