May 16, 2016

Comments of the Nature Conservancy on ARB sector-based credit workshops April 5, and April 28, 2016.

Thank you for the opportunity to submit comments on your workshops of April 5, and April 28, 2016 addressing issues involved in adding international sector-based credits to the AB 32 Cap and Trade program from tropical forest protection. The Nature Conservancy has extensive research and implementation experience in this issue and participated in both of these workshops and these comments supplement those submitted previously. Following are some comments to the issues and questions you discussed at these last two workshops.

* The Nature Conservancy supports the process ARB is conducting to develop and eventually adopt regulations to amend the AB 32 Cap and Trade program to include international sector-based credits from avoided loss and degradation of tropical forests. We applaud ARB to taking a comprehensive approach to fulfilling the mandate of AB 32 by adding tropical forest credits. In so doing, ARB will be lending its significant credibility to efforts combating climate change by reducing deforestation and forest degradation and will encourage others to invest in this mechanism. We continue to urge ARB to continue this work expeditiously and complete the regulatory process so that credits can be approved and accepted during the third compliance period. We note again that this process has been under consideration by ARB for quite some time and most recently active since the release in October, 2015 of a detailed white paper on the topic. The release of this white paper and the four workshops you have held since then have provided sufficient opportunity for all stakeholders to provide meaningful input on the issue.
* We support the ARB staff recommendation” to develop a set of quality standards and evaluate the design of a jurisdiction’s own MRV program against those standards. The MRV program should be robust, transparent and consistent with United Nations Framework Convention on Climate Change guidance and the REDD Offset Working Group ( ROW )recommendations. As recommended by the Forest Carbon Partnership Facility, the monitoring program should be able to detect reversals.
* Consistent with the ROW recommendations, ARB should require any partner jurisdiction to adopt buffer pools or similar mechanisms like insurance instruments to compensate for reversals in years when emissions rise above the jurisdictional reference level, and to compensate for natural disturbance. The partner jurisdiction should have the flexibility to choose what specific mechanism will be incorporated into their jurisdictional program. And, a 10% contribution to a buffer pool should prove adequate as long as monitoring and adaptive management provisions are adopted to allow for an increase if needed.
* Again, as a general principle, we recommend that you provide a standardized guidance framework that provides flexibility in the rule for the host jurisdiction to craft a program that also fits their particular circumstances. For example, the host jurisdiction could help design a program to address potential leakage, especially within their jurisdiction.
* We support retention of the existing mechanisms for cost containment including ARB’s stated commitment to maintain the auction of allowances, the allowance reserve at current levels and the current limit on offsets at 8% of any entity’s compliance obligation. We note that adding tropical forest credits will not increase the total number of offsets allowed in the system.
* We encourage ARB to integrate the ROW recommendations for measurement, monitoring, reporting and verification (MMRV). ARB should approve the jurisdiction’s methodology for measuring and reporting before the program begins.
* Consistent with the ROW recommendations on MMRV, ARB should require independent, third-party verification of GHG reductions as a precondition of crediting.
* We were pleased to participate in the ARB workshop on Social and Environmental Safeguards on April 28. Representatives from indigenous and other forest-dependent communities articulated well, the impact that ARB’s action could have to help alleviate poverty and support low carbon economic development in their communities while generating greenhouse gas reductions. To help achieve these goals and ensure environmental integrity, ARB should require a robust program of social and environmental safeguards in the regulation. Significant work has been accomplished over the past decade to develop and test safeguard systems as described in the ROW recommendations and input from the Climate, Community and Biodiversity Alliance. At the April 28 workshop, we were impressed to hear from Faru from Acre, Brazil about the safeguard system working in that state. He described how the program has resulted in full and informed participation and has directed 70% of the initial climate funds from Germany to indigenous communities in Acre. Other participants from outside the US spoke of their desire to link their own developing programs with California, demonstrating the catalytic affect that California’s action on this issue would have, potentially generating significant greenhouse gas reductions through forest protections throughout the hemisphere and alleviating poverty. While many excellent safeguard systems are now available to ARB as described by the ROW, for ease of verification we recommend that ARB regulations incorporate the REDD+ Social and Environment Safeguards (SES) system with the Climate, Community and Biodiversity Alliance [standards.](http://www.climate-standards.org/)
* We also attended the session on potential linkage with Acre. The presentation about Acre’s State System for Environmental Services (SISA) program was very informative and stands as a compelling working model. The program is helping Acre develop a low carbon economy where communities reap economic returns while the forest and the climate are protected. As mentioned above with Faru’s presentation, Acre has established a good mechanism to integrate indigenous communities into its SISA program demonstrating that safeguards can work. In addition to the SISA program, the buyer liability provisions in the AB 32 Cap and Trade program will enhance the permanence of any credits accepted by California. Also, linking with Acre will help this state meet its pledge made for California’s Under Two MOU and send a positive signal to other eleven Under Two MOU tropical forest states that California is taking action that can potentially help them meet their pledges.
* The Nature Conservancy recommends that ARB continue the phased approach articulated in the current regulations to add sector-based credits into the Cap and Trade program. For the third compliance period, ARB should limit sector-based credits to two percent of an entity’s compliance obligation as planned for in the existing regulation. We also recommend that the regulation require a report to the Board at the end of the third compliance period to evaluate its effectiveness and recommend any changes that might be warranted to enhance its implementation. Upon the end of this first phase, the program could be revised and potentially expanded.

Thank you for the opportunity to comment on this important process. We applaud ARB for the consistent, thorough and thoughtful manner in which it is pursuing this amendment to the Cap and Trade program to include sector-based credits from tropical forests. We look forward to continuing to participate in the process.

Louis Blumberg, Director

California Climate Change Program