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Comments of Encourage Capital in Support of the Inclusion of REDD+ Sectoral Offset Mechanism

We are pleased to submit these comments on behalf of our client, Encourage Capital, in support of California's continued leadership on addressing the challenge of climate change, and in particular, its recent Public Workshop and [Staff White Paper](#) related to “*Evaluating the Potential Role of Sector-Based Offset Credits Under the California Cap-and-Trade Program, including from Jurisdictional ‘Reduced Emissions from Deforestation and Degradation (REDD+)’ Programs*”.

Overview of Encourage Capital

The impacts from climate change are already having far-reaching, and perhaps disastrous effects, on natural ecosystems and human livelihoods. Encourage Capital believes that the capital markets must play a critical role in providing incentives for both reducing greenhouse gas emissions and sequestering carbon in biological systems such as forests, grasslands, wetlands, and agricultural systems.

Encourage Capital invests in and is designing ecosystem-based investment strategies to address global climate change. Encourage Capital believes that investing in projects focused on the conservation, restoration and improved management of biological systems — such as forests — is one of the most reliable and most cost-effective ways to address climate change. Such projects also provide co-benefits such as healthier ecosystems that support biodiversity, sustainable wildlife habitat and fresh water.

Encourage Capital has become a leader in financing ecosystem-based carbon offset projects that develop carbon credits for the California carbon market. Our EKO Green Carbon Fund invests in projects that rely on changes in forest management practices that are designed to preserve more carbon. We are also developing investment strategies to support “REDD” projects, which are aimed at reducing tropical deforestation and forest degradation.

Inclusion of a REDD+ Sectoral Offset Mechanism is Critically Important

Emissions associated with forest loss, agricultural expansion, and other land-use change account for one third of global carbon dioxide output. Thus, without developing the governance systems to address the crisis of global deforestation, we cannot solve the

climate change challenge. As discussed in the Staff White Paper, myriad co-benefits can be realized from a REDD mechanism from biodiversity preservation to increasing the value that forest-dwelling communities realize from conserving forests, all of which are of critical importance to support.

Direct Benefits to California's Cap and Trade Program

California's efforts to include within its cap and trade compliance program international REDD+ offsets will directly benefit the California program by creating an expanded pool of eligible compliance offsets, thereby diversifying and enhancing the overall offset mechanism as the program moves forward. This will be increasingly important to the extent the future targets are ratcheted downward consistent with the Governor's stated reduction goals and the best climate science. Maintaining a robust offset mechanism as a credible means to achieve cost effective mitigation will be essential going forward.

International Importance of California's Efforts

In addition, California's REDD+ efforts are not occurring in a vacuum. What California achieves will be closely followed by governments around the world as part of their commitments under the United Nations Framework Convention on Climate Change (UNFCCC), as well as other United Nations bodies, such as the International Civil Aviation Organization (ICAO). The urgent need to address global deforestation is clear. The parties to the UNFCCC and ICAO are both considering how best to create inclusive opportunities to contribute to reducing greenhouse gas emissions through, among other things, market based measures. In both contexts, the parties have not yet established the details for how best to include sectoral REDD+ into their own compliance regimes. Thus, California's current efforts are extremely valuable to the overall global governance considerations. If California develops a replicable governance model, it would materially advance the broader effort to tackle deforestation at scale.

Existing Standards and Efforts Should Be Incorporated

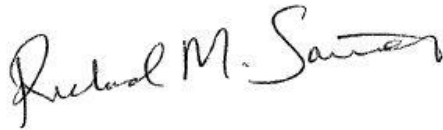
At the same time, California should not start this effort from scratch or re-invent the wheel. Rather, it can leverage the great work achieved over the past decade by the UNFCCC process and leading standards institutions, such as the Verified Carbon Standard (VCS). The UNFCCC has created the standards for environmental and social safeguards. The VCS has created the standards for the technical details on accounting for reductions at a jurisdictional level while continuing to allow projects to "nest" within such jurisdictional approaches. The ability for projects to receive private sector investment in the context of a jurisdictional program, where the performance of the jurisdiction as a whole is measured, is a critical element to attract private sector investment.

These efforts provide a solid foundation from which California should build its program. Taking the next step by creating the first fully formed compliance template based on the

collective efforts and existing standards will send a very strong and productive signal to the rest of the world.

We applaud California's continuing efforts and welcome the opportunity to engage further on developing the critically important sectoral REDD+ crediting mechanism for California's cap and trade program.

Yours sincerely,



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