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Mr. Jason Grey
Chief, Cap-and-Trade Program
California Air Resources Board
1001 I Street
Sacramento, CA 95812

Dear Mr. Gray,

The incorporation of jurisdictional and nested REDD+ offsets into the California cap-and-trade system is a critical step toward driving finance to protect the world's remaining tropical forests. Verra strongly supports the California Air Resources Board endorsing the draft California Tropical Forest Standard, with the recommended changes outlined in comments below. The comments are specific to each chapter of the standard.

Summary of California Tropical Forest Standard

- There is inconsistent use of "deforestation" versus "deforestation and/or degradation" throughout the document. The standard should make it clear throughout that it covers deforestation and degradation, and the title "Criteria for Assessing Jurisdiction-Scale Programs that Reduce Emissions from Tropical Deforestation" should be updated to specifically include degradation. It is also unclear whether carbon stock enhancement activities (e.g., improved forest management, afforestation/reforestation) are included and how.
- It would be helpful to clearly state that jurisdictions could use other standards to help meet some or all of California's requirements (e.g., Forest Carbon Partnership Facility Carbon Fund Methodological Framework, VCS Jurisdictional and Nested REDD+ standard, Green Climate Fund scorecard). This would be particularly helpful for jurisdictions that have already applied a particular standard or framework. It also keeps options open for jurisdictions to access a diversity of finance for their REDD+ programs.

Chapter 1. Purpose and Definitions

- "World Bank's Forest Carbon Partnership Facility and Carbon Fund" should read "World Bank's Forest Carbon Partnership Facility Carbon Fund" in 1.1 (b). They are the same entity, with the Carbon Fund falling under the FCPF.
- In section 1.2, several of the definitions state requirements rather than definitions. For example, under the definition of "Reference Period" it is stated that "The first reference period shall be a 10-year period that ends no more than 24 months prior to linkage with an ETS". This should be described in the requirements rather than used as a definition. Check for this throughout definitions section.
- Comments on the content of specific definitions are raised in the relevant sections below.

Chapter 4. Reference Level

- Measuring only gross deforestation is often inappropriate. Estimating change in gross deforestation typically overestimates performance because post-deforestation land use regrowth and/or enhancement activities are not included in the calculation.
- It is stated that a reference level should "represent an historical average of gross emissions from deforestation and degradation from prior 10 year period". Requiring use of an historical average might work for some countries like Brazil, but is inappropriate and unworkable for many other countries. For example, HFLD (high forest, low deforestation) countries that have historically low deforestation rates but anticipate a steep rise in deforestation going forward (e.g., Peru) may unable to secure sufficient finance to protect remaining forests. Furthermore, requiring use of an historical average could produce an unrealistic baseline where there has been a declining trend of deforestation, undermining atmospheric integrity.
    - It is important to note that the UNFCCC Warsaw Framework for REDD+ only requires that historical data be taken into account in the development of a Forest Reference Emissions Level; there is nothing that requires use of an historical average. Historical data could equally be used to develop an historical average, trend or modeled/adjusted reference level to best fit country circumstance. The requirement to use an historical average baseline can greatly over or under estimate emission reductions, and as mentioned above, can also serve to undermine the development of effective forest conservation efforts.
- Requiring a jurisdiction to update its reference level every 5 years is overly prescriptive and in many cases would be burdensome and cost prohibitive for the jurisdiction. The VCS JNR Requirements require that baselines be updated every 5-10 years, to provide appropriate flexibility, while maintaining atmospheric integrity.
- It is stated that the "reference period must end no less than 24 months prior to linkage with an ETS". It may be preferable to rely on a different threshold because it will likely be hard to predict (and thus plan around) exactly when the linkage would occur (e.g., based on unforeseen delays from the host country or California side). As a result, requiring the reference period to end no less than 24 months prior to linkage with an ETS may disincentivize the start of policies and program activities to reduce deforestation/degradation. Another risk is that the reference period may end up including time when a policy or program activities were already being implemented (e.g., due to delays in ETS linkage) which could inappropriately impact the calculation of the reference level. Instead, we would recommend requiring that the reference period end no less than 24 months prior to the start date of the program, and then put bounds around the start date. For instance, in the VCS JNR Requirements, a program start date must not be before 2006, when REDD+ was first discussed in Montreal. Given that the language of the draft standard currently ties the program to the date of linkage, it is unclear whether emission reductions earned in the past will be permitted.
- Further guidance around allocation of a subnational reference level may be warranted. In many cases the UNFCCC submitted reference level is at the national level, and must then be allocated down to lower levels.

- It would be helpful to clearly state the activities and pools that are eligible or required to be included in the reference level (either in this section, or in the Sector Plan section, or both). As an example, please see appropriate section of the VCS JNR Requirements.

Chapter 5. Crediting Period

- A 5-year crediting period is overly prescriptive and in many cases could be burdensome and costly for the jurisdiction as this requires the reference level to be updated every five years (see comments on Chapter 4. Reference Level). The crediting period requirements should be updated to allow for a crediting period of a maximum of 10 years (renewable at most twice) to allow for some level of flexibility.

Chapter 6. Crediting Baseline

- Requiring "own effort" to be periodically incorporated into the reference level is a good idea. However, requiring a flat 10% reduction would not be not workable or appropriate in many cases. Refer to comments on Chapter 4. Reference Level regarding why an historical average reference level is often overly conservative. Given this, requiring the crediting baseline to be 10% below that is excessively punitive and may mean HFLD (high forest, low deforestation) countries which anticipate a steep rise in deforestation going forward are unable to secure sufficient finance to protect their remaining forests.
- It should be made clear whether the jurisdiction would be allowed to access other forms of finance (e.g., voluntary markets) using the 10% potential performance between the reference level and crediting baseline. Being able to access other sources of finance will be important for many jurisdictions to be able to achieve this "own effort".

Chapter 7. Leakage

- It should be made clear that it is realistically only possible to accurately quantify and account for leakage outside the boundaries of a subnational jurisdiction but within the boundaries of the country. Per IPCC guidance, it is not necessary to account for international leakage, although it should be identified and mitigated.

Chapter 8. Monitoring and Reporting

- The requirement to monitor and report GHG emissions from deforestation and changes in forest cover across an entire jurisdiction on a yearly basis is overly burdensome and rarely feasible. These reporting requirements should be revised to allow for reporting at least every 5 years, or the current length of the crediting period.

Chapter 9. Third-Party Verification

- Chapter 3, Section (b), and Chapter 13, Section (f)(3) infer that verification should be consistent with annual reporting, however the draft standard does not explicitly state what the periodic verification requirements are. Given that the third-party verification process can be onerous, it is recommended that the standard should require monitoring and verification at least every 5 years, and not annually as is currently inferred by the language of the draft standard.

Chapter 10. Social and Environmental Safeguards

- There is no mention of UNFCCC REDD+ safeguards. At a minimum the jurisdictional program should align its safeguards with all UNFCCC REDD+ safeguard decisions. Frameworks such as REDD+SES should be used to guide jurisdictions in achieving the UNFCCC REDD+ safeguards.

Chapter 11. Permanence and Reversal Risk

- Reference to the JNR Non-Permanence Risk Tool is made regarding political and governance risk, but not for the other risk categories. It is unclear why this is the case, since the JNR Non-Permanence Risk Tool covers all of the relevant risk categories and could be referred to more broadly as a helpful tool for jurisdictions.
- In the Summary section at the beginning of the standard document, under Chapter 11, there is reference to “invalidation criteria” such as “buyer liability”, but this is not explained or discussed at all in Chapter 11 itself.
- This section describes that offset credits “must be contributed to a sector-based crediting buffer account established for approved sector-based crediting programs and maintained by the ETS”. Consider that a buffer account may be more resilient if established globally, with programs depositing buffer credits globally, rather than on an ETS by ETS basis.

Chapter 12. Enforcement

- While there is a description of enforcement and the need for the implementing jurisdiction to have regulatory oversight, there is no discussion of carbon rights or ownership, and the important connection between carbon rights and an equitable and effective benefit-sharing mechanism. This is not a straightforward topic and jurisdictions with Emissions Reduction Programs under the World Bank Forest Carbon Partnership Factility Carbon Fund have run into complications regarding the legal basis for carbon rights, transfer of carbon rights and clear benefit-sharing mechanisms. It seems important to cover this issue, potentially as a separate section.

Chapter 15. Nested Projects

- It is very positive that nested projects are allowed and incorporated, so long as project results are reconciled with the jurisdictional level, project baselines “reflect and fit within the jurisdictional reference level” and it is ensured there is no double counting. Projects are essential for private sector investment and on-the-ground activity implementation that engages local communities and directly addresses the drivers of deforestation and degradation.
- The requirements point to REDD+SES for safeguards at the project level (“each project must ensure that...safeguards are met...consistent with REDD+SES”), and Climate, Community & Biodiversity (CCB) Standards at the jurisdictional level (“the jurisdiction’s...safeguard program must receive a positive verification with CCB…”). This should be reversed - REDD+SES is a jurisdictional level standard, and CCB Standards are for projects.
- It is problematic and overly prescriptive to require a project to establish an “historical average baseline”. Instead this should just read “historical baseline”. In this way, historical data is used but the method of allocating the jurisdictional reference level to projects is not prescribed and can be determined to best fit project and jurisdictional circumstances. The blanket application of a jurisdictional historical average to a project area is inappropriate and unworkable because:

- Deforestation and degradation occur heterogeneously across a landscape.
- Projects are typically developed in areas not yet deforested but under high threat.
- Requiring use of the jurisdictional historical average in a project area may disincentivize investment in high threat areas and concentrate investment in low threat areas - exactly the opposite of what is most needed.

- Furthermore, using historical data from within the project area would (in most cases):
  - Underestimate the threat of deforestation to the project area.
  - Undermine the ability of the project to address deforestation (by limiting available finance).
  - Incentivize large projects that inappropriately cover deforested areas in order to calculate a realistic baseline (this may complicate benefit sharing and legal rights by incorporating landowners who are not part of project activities).
- A preferred approach would be to allocate the jurisdictional reference level to projects in a way that most effectively incentivizes action:
  - The absolute value of the jurisdictional reference level could be used as a maximum incentive pool to attract investment.
  - This pool of historical emissions could be allocated to the remaining forest in the jurisdiction, so effective baselines could be constructed for projects. This could be done through use of a weighted average of total historical emissions taking into consideration level of threat to remaining forests. Additional variables could be incorporated into the model to make it more spatially explicit, including historical deforestation in municipalities (and contiguous municipalities) and historical deforestation in relevant biomes.
  - Such an allocation approach would attract higher investment to areas of higher threat which should lead to better overall performance in reducing emissions. It would need to be done transparently with peer and public review to ensure robustness.

Many thanks for taking the time to consider our comments and suggestions, Should you have any questions, please do not hesitate to contact me via email (dantonioli@verra.org) or by telephone (202 352 2584).

Sincerely,

David Antonioli
CEO, Verra