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**To: Rajinder Sahota, Chief**
**Climate Change Program Evaluation Branch, Industrial Strategies Division**
**California Air Resources Board, 1001 I Street, Sacramento, California 95814**
**Online Submission: www.arb.ca.gov/lispub/comm2/bcsubform.php?listname=sectorbased1-ws&comm_period=1**

# IETA COMMENTS ON CALIFORNIA AIR RESOURCES BOARD'S SECTOR-BASED OFFSETS WORKSHOP & WHITE PAPER

The **International Emissions Trading Association** (IETA) welcomes the opportunity to share comments on California Air Resources Board (ARB)'s technical workshops and **Staff White Paper** on the "*Ongoing Evaluation of the Potential for Sector-Based Offset Credits in California's Cap-and-Trade Program.*"

IETA **welcomes California's growing support for the potential inclusion of sector-based offsets** into California's program, and we recognize the impressive leadership already shown through partnerships, such as the **Governors' Climate and Forests Task Force** (GCF), and technical efforts, such as the **REDD+ Offset Working Group** (ROW). Given the clear role codified in the Paris Agreement for policies and incentives for activities to reduce deforestation and forest degradation, accepting REDD+ credits from both jurisdictions and nested projects would mark another milestone in the state's REDD+ global leadership.

IETA's comments are structured around two sections. **Section 1** features high-level priority input, including guiding principles for consideration, on the potential inclusion of REDD+ credits into California's program. **Section 2** contains more technical input on the inclusion of these credits into California's program. The latter, more detailed section is structured around the following design items:

1. **Crediting Pathways;**
2. **Transparent, Robust & Enforcement MRV Frameworks;**
3. **Reversal Risk & Permanence; and**
4. **Leakage Risk.**

## SECTION 1: PRIORITY INPUT

### A. GUIDING PRINCIPLES FOR CONSIDERATION

IETA encourages ARB to support the inclusion of sector-based (including REDD+) offset credits into California's program **as early as practical and effective**. As captured in the workshops, some of the design principles that will be critical to the success of REDD+, include: ensuring cost-containment; providing California businesses with the needed flexibility to achieve real and deep net reductions; and preserving the overall integrity of California's program.

Simultaneously, ARB must ensure that potential regulatory amendments, including those related to offset program improvements, specifically:

- Avoid future potential for double-counting;
- Avoid adversely impacting California's current offset program;
- Improve, rather than impede, program implementation and administrative efficiencies; and
- Do not restrict future efforts for California to successfully link with other jurisdictions.

## B. ADEQUATE CAPACITY & RESOURCES TO EFFICIENTLY PROCESS PROJECTS

In previous submissions, IETA has stressed the need for ARB to develop well-defined, transparent procedures and timelines for all offset project reviews and issuances. This matter could prove more urgent, and certainly more relevant, should California introduce international sector-based and REDD+ offsets into the California market.

As the workload under California's existing offsets program builds over the coming years, ARB must ensure that its offsets pipeline is not jeopardized by insufficient resources being devoted to the REDD effort at the expense of existing projects – this issue particularly holds true for anticipated legal resource requirements.

Should ARB officially approve REDD+/sector based offsets, especially during the third compliance period, IETA strongly encourages ARB to increase capacity to help successfully develop and implement a workable compliance REDD+ protocol. This increased Staff capacity and bandwidth would help avoid any diversion from existing – and necessary – ARB resources that are currently dedicated to offset project activities.

## C. COLLABORATIVE MECHANISMS FOR ADDED PROGRAM SUPPORT

Based on IETA's experience across numerous offset programs worldwide, we believe that some of California's existing offset implementation challenges can be addressed, if the proper support mechanisms and multi-sector resources were made available to ARB. We believe the same holds true in addressing potential future challenges related to the introduction of sector-based and REDD+ credits.

We recommend that California's amended Cap-and-Trade Regulation allow for the creation of new offset support mechanisms, such as a Multi-Sector Offsets Advisory Panel and Offsets Technical Working Group(s). These groups, consisting of market/technical experts from across relevant sectors, would work closely with ARB Staff to understand and assess practical implications of offset program modifications and opportunities for program improvement.

## SECTION 2: DETAILED INPUT

### 1. CREDITING PATHWAYS

***Importance of Crediting Nested Projects & Jurisdictional Reductions***

**Tropical deforestation is best tackled through interventions at all scales**, including jurisdictional-level measures (programs/policies) and targeted project interventions. Taking a two-pronged approach affords the greatest chance of addressing large-scale drivers of deforestation while tackling site-specific factors.

By allowing REDD+ credits to come from jurisdictions or nested projects from the outset, California would support a more integrated approach to reducing deforestation and unlock far greater investment and finance to drive such activities than if it started with jurisdictional crediting only. The fact remains that most private parties and investors are far more comfortable entering into agreements and transacting with projects, where the causal chain is clearer and actors have greater control and assurance that their efforts and associated performance will be appropriately credited.

We note that nested projects would have to be approved by California's partner states; therefore, only the best projects aligned with government priorities and accounting regimes would be credited. Also, in crediting both nested projects and jurisdictional programs, California would be reducing the risk that its partner jurisdictions are not ready to supply sufficient compliance-grade offsets into the California market by 2018. Any uncertainty around this could hurt California regulated entities by undermining their ability to effectively plan for carbon compliance, especially as caps tighten in 2018 and beyond.

***Use of Third Party Standards & Programs***

Rather than issuing credits directly to REDD+ partner jurisdictions, **California should recognize credits issued by jurisdictions and by approved third-party programs directly to those jurisdictions.** Such credits should then be eligible for conversion into the administrator's compliance units. Providing the option to allow partner jurisdictions to use third-party programs to issue REDD+ credits for compliance use is in-line with the ROW's recommendations, and should be part of California's program from the outset.

Without relying on the expertise and enabling programs of third-party standards, it will be challenging for states to robustly account for sectoral reductions, and issue, credits that meet California's strict requirements. In fact, REDD+ states currently have no mechanisms in place, and are not actively planning to develop any, to actually issue credits, let alone establish supporting program elements like diversified buffer pools to effectively address reversal risk. For example, Acre, Brazil is counting on using VCS Jurisdictional and Nested REDD+ (JNR) to quantify its emission reductions and generate compliance-grade

credits, with the expectation that these credits would meet California's compliance requirements. Acre is also applying the REDD+ Social and Environmental Standards to establish rigorous safeguards and ensure local communities benefit from the program. By using both best practice standards, Acre is already meeting the carbon and social-environmental recommendations of California's ROW.

## 2. TRANSPARENT, ROBUST & ENFORCEABLE MRV FRAMEWORKS

California and partner jurisdictions would not be advised to "reinvent the wheel" in terms of developing new MRV frameworks or adopting bespoke approaches with individual states. Such a move could create market uncertainty, limit global applicability, and potentially strand ongoing REDD+ projects. Instead, to the greatest extent possible, **ARB should tap into the following existing global standards for bringing REDD+ supply into California** in order to generate early "wins" in the REDD+ sector:

- **Verified Carbon Standard (VCS) Jurisdictional and Nested REDD+ (JNR) Framework** was established following a comprehensive three-year multi-stakeholder development process (including many of California's prospective partner jurisdictions). JNR is the world's only accounting and crediting platform for jurisdictional REDD+ programs, and also establishes a clear pathway for the nesting of projects and guarantees the permanence of credited reductions through the deep and diversified VCS buffer pool

- The **American Carbon Registry (ACR)'s Nested REDD+ Standard** provides technical guidance for registration of REDD+ projects that are nested within a jurisdictional accounting framework. This includes specifications for how differences in project-level and jurisdiction-level performance can be reconciled. ACR's Nested REDD+ Standard builds on experience designing REDD methodologies for a broad range of stakeholders. In addition, ACR's REDD Methodology Modules can be used to account for methodological components not otherwise addressed by a jurisdictional accounting framework.

- The **Climate Action Reserve (CAR)'s Mexico Forest Protocol** is broadly considered a highly rigorous, project-level standard that is currently producing high quality credits from enhancements from improved forest management, agroforestry, and reforestation. This sector-based accounting framework is currently under development in Mexico.

**Third-party MRV standards that meet ARB verification rigor should be referenced and/or incorporated into California's sector-based crediting rules.** Given that potential partner states are either using, or intending to use, third-party programs to generate and verify offset credits that meet ARB criteria, it would be counterproductive and inefficient to not allow those jurisdictions to use such standards for their MRV, and it would be unnecessarily complicated to phase them in at a later date. In fact, given how many years it takes to develop robust REDD+ accounting and crediting frameworks, it would be highly unlikely that California could bring in compliance-grade REDD+ credits prior to 2020 without tapping such existing third-party programs.

Allowing each jurisdiction to develop its own MRV framework to be approved by ARB would be administratively onerous, and would require significant organizational capacity to devote sufficient resources required to understand and deal with multiple frameworks. While ARB establishing a baseline framework to be used by all jurisdictions would be preferable to each jurisdiction developing its own, it would also be counterproductive when robust third-party MRV frameworks already exist.

## 3. REVERSAL RISK & PERMANENCE

Of the options presented by ARB at the April 5 workshop, the jurisdictional and buffer approaches work well together as a means of addressing potential reversals. To date, insurance is not readily available for properly ensuring permanence[1] and such intermediaries have yet to enter the carbon marketplace. The future-year-discounting approach (i.e. subtracting any lost tons from future credit issuances) is what best-practice REDD+ standards already require, and should therefore be a basic requirement for jurisdictional accounting in order to maintain atmospheric integrity.

With respect to how many credits should be set aside in a buffer pool, it is recommended that the percentage withheld be based on an **analysis of the specific reversal risk factors in each jurisdiction**. ARB could refer to the VCS JNR Non-Permanence Risk Tool[2], currently being applied in jurisdictions like Acre, which defines a conservative number of credits that must be withheld to ensure the permanence of claimed reductions. This tool assesses risks relevant to the jurisdictional program across the following five broad categories: political and governance risk; program design and strategy risk; carbon rights and use of carbon revenues; funding risk; and natural risk.

### *Monitoring for 100 Years*

Requiring that REDD+ jurisdictions monitor their forest emissions for 100 years will prove challenging for developing country governments, and such a requirement could become a barrier to establishing viable linkage agreements with California. However, robust buffer systems can address reversal risk without requiring that jurisdictional programs commit to a century of required monitoring. For instance, the VCS JNR Buffer System addresses such long-term risks as follows:

> *Where a jurisdiction or nested project fails to submit a verification report to a VCS registry within five years of its last verification, 50 percent of the buffer credits associated with the relevant jurisdiction shall be put on hold. After a further five years, all of the remaining buffer credits associated with such jurisdiction shall be put on hold. Where no subsequent verification report has been presented within a period of 15 years, and the program or project crediting period has not yet expired, buffer credits shall be cancelled from the jurisdictional pooled buffer account in an amount equivalent to the total number of VCUs issued to the jurisdiction (including buffer credits put on hold).*

[1] *Possible exception is OPIC, which has limited scope and focuses on country risk.*

[2] *VCS JNR Non-Permanence Tool (along with other VCS documents referenced below) can be accessed at http://www.v-c-s.org/program-documents.*

The above example **highlights another reason why diversified buffers comprising a deep pool of credits from multiple jurisdictions and projects are so valuable,** since they have the potential to address such long-term risks with their ability to cover all issued credits from a single REDD+ program. Even if ARB were to require 100-year monitoring, given the risk that this may not be adhered to in the developing country context, having issued credits backed by a robust buffer pool, managed by an established international third-party standard, could provide an additional level of assurance.

## 4. LEAKAGE RISKS

ARB's presented options for addressing leakage risk only focus on the potential shifting of commodity production. While this covers one of the primary leakage risks for jurisdictional REDD+, we believe that a more comprehensive approach should be taken; an approach that also considers market and subsistence drivers of deforestation.

Once again, ARB could refer to the JNR Leakage Tool to understand how jurisdictions can credibly assess leakage potential by looking at key factors in a systematic way, mitigating the identified risks, and accounting for leakage that cannot be avoided. To reiterate, ARB should not reinvent the wheel while moving forward with sector-based and REDD+ rule-making decisions. We strongly advise officials to tap existing standards, programs and tools, such as the JNR Leakage Tool, as it sets criteria for what would constitute an acceptable compliance unit in California's growing market.

## In Conclusion

IETA appreciates this opportunity to record our comments related to the potential inclusion of sector-based, including REDD+, credits into California's Cap-and-Trade Program. Our multi-sector business membership remains committed to supporting the successful evolution, and international expansion, of California's carbon market to help achieve its climate goals at least-cost.

If you have questions, or further clarification related to this submission, please contact IETA's Director of the Americas, Katie Sullivan (**sullivan@ieta.org**).

Sincerely,

*Dirk Forrister*
*IETA President and CEO*