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August 20, 2010

Via Electronic Submission

Barbara Bamberger
Office of Climate Change
California Air Resources Board
1001 I Street
Sacramento, CA 95812

Re: ARB's July 30, 2010 Presentation re Sector-Based Crediting & Subnational Reducing Emissions from Deforestation and Degradation (REDD)

Dear Ms. Bamberger:

The COPC (www.carbonoffsetproviders.org) is an alliance of leading companies that provide low-carbon and clean technology investments, representing hundreds of clean infrastructure projects, millions of tons of greenhouse gases reduced, thousands of green jobs, and millions of dollars in economic benefit to local and regional communities at project locations in California, elsewhere in the U.S., and abroad. COPC members finance, produce, generate, provide, aggregate, verify, and/or market greenhouse gas emission reductions for sale as offsets in existing and emerging voluntary and compliance greenhouse gas emission trading markets. Our members include the #1 and #2 project portfolios in North America, the #1 credit aggregator, as well as the largest portfolio of international Clean Development Mechanism offsets in the world.

The COPC is pleased to have this opportunity to comment on the presentation made by the California Air Resources Board ("ARB") at its July 30, 2010 stakeholder workshop on Sector-Based Crediting & Subnational Reducing Emissions from Deforestation and Degradation ("REDD") as part of a California Cap-and-Trade Program.[1] We offer the following comments based upon our members' experience operating within the markets referenced above, including the experience from hundreds of offset projects in many parts of California, nearly all 49 of the other states, and in other parts of the world as well that collectively have achieved millions of tons of greenhouse gas emission reductions and sequestration.

[1] We understand that at present ARB is considering initially limiting its program to deforestation as part of a phased approach — *i.e.*, RED rather than REDD. (See ARB Slide 11.) We nonetheless utilize the term REDD herein, both because it is the more commonly used term and because we wish to encourage ARB to expand its program beyond the initial phase to include REDD and possibly also REDD+ at the appropriate time.

A. Introduction.

COPC welcomes and applauds ARB's initiative with respect to developing a means to recognize offsets generated by REDD projects. We commend ARB for holding the July 30 stakeholder workshop, during which excellent presentations also were made by the U.S. Environmental Protection Agency, the Nicholas Institute, and the Governors' Climate and Forest Taskforce ("GCF"). ARB's approach to this issue fostered a genuine and thoughtful dialogue at the workshop, which inspires hope that this process will lead to the timely development of a constructive California REDD policy. As was said by many at the workshop, California truly is a beacon for climate policy at present, and nowhere is this more true than in the context of REDD. While we do not agree with many of ARB's policy choices, we want to be clear in commending ARB's efforts and encouraging ARB to continue to forge ahead on this work that is truly of global importance.

We strongly encourage ARB to send a critically needed signal to the market, to the subnational REDD partners abroad, and to the world in general by launching a REDD program as part of its cap-and-trade program. We believe it is necessary in order to spur sufficient and sustained investment in emission reduction and sequestration in the sector of tropical forests. As is well-known, deforestation in this sector accounts for approximately 17% of the world's greenhouse gas emissions, which is why it is so important that the effort to mitigate global warming engage this sector. No one contends that these efforts alone will stop global climate change, but they are a critical part of the solution. With that in mind, we offer four general comments.

B. COPC Comments.

1. COPC Supports ARB's Effort to Develop a REDD Program.

COPC strongly supports ARB's intention to develop a program to recognize compliance offsets within its cap-and-trade program generated by nested REDD projects as part of a sector-based emission reduction crediting program undertaken by subnational partner jurisdictions in developing countries. Doing so serves several purposes. First and foremost, it provides a market incentive to achieve emission reductions via REDD projects in these areas that are at the front lines of the fight to mitigate climate change. This is a global effort, and it is appropriate that California do what it can to encourage participation in this effort by other subnational jurisdictions. It is appropriate not only because of the leadership that California thereby provides — leadership that is desperately needed at this time, and that will help to ensure the success of California's efforts to mitigate climate change by enlisting others in the effort. It also is appropriate as it serves California's near-term interests by providing an additional cost flexibility mechanism for those that must comply with its cap. Frankly, the latter is not likely to be very significant due to the limited size of California's carbon market and the severe quantity limitations that ARB is currently proposing to place on the use of offsets. (*See, e.g.*, COPC July 13, 2010 Comments on ARB's June 22, 2010 Presentation re Offsets and Linkage.) However, the leadership role is very important, and California's example likely will help to maintain and expand investment in REDD such that it can become more and more important in the global effort to mitigate climate change.

2. COPC Suggests that ARB Begin with a REDD Pilot Program in the First Phase of California's Cap-and-Trade Program.

As was discussed during the GCF presentation and other portions of the July 30 workshop, it is becoming increasingly difficult for subnational jurisdictions in the developing countries with the greatest levels of tropical deforestation to continue to pursue REDD programs as a development strategy. These developing countries are under severe economic pressures, and many are finding it increasingly difficult to pursue REDD strategies when harvesting the forests or replacing them with cash crops can provide the sort of economic development that is desperately needed by their people.

We therefore strongly encourage California to develop a pilot program that can recognize compliance offsets generated by REDD projects in the first phase of California's cap-and-trade program beginning in 2012 rather than waiting for the second phase in 2015 or even later as currently contemplated. As noted above and during the July 30 workshop, when considered within the international context in which it will operate, California's REDD program will necessarily be of such limited size as to be, in effect, experimental or even symbolic. Yet that symbolism is terribly important, as it will provide an example of actual revenues being generated by REDD projects. Such precedents could serve as a powerful argument for subnational leaders seeking to stave-off those that would give-up on REDD in favor of other, more immediately remunerative uses of the forests in these desperately poor areas.

One can accept that mistakes are likely to be during such a pilot phase, but the very fact that their scale is limited means that the impact of any such mistakes will be limited as well. And of course there are few more powerful pedagogical devices than one's own mistakes. Indeed, the pilot program could be constructed with provisions requiring regular review so that there will be procedures ensuring that the lessons will be learned. When it comes to REDD, the need to deliver meaningful market incentives in the near term is so critical that it should outweigh the normally commendable approach of deliberate though time-consuming program design. Here the perfect truly can become the enemy of the good. We therefore encourage ARB not to let that happen by developing a pilot REDD program for the first phase of the cap-and-trade program beginning in 2012 that can serve the frankly symbolic purposes of this program with little risk of causing harm.

3. COPC Suggests that ARB Recognize Some Offsets from REDD Projects in Areas not Yet Ready to Implement a Sector-Based REDD Program.

For many of the same reasons discussed in the preceding comment, COPC also recommends that ARB consider developing a means for accepting some compliance offsets generated by REDD projects in developing countries where the subnational jurisdictions are not yet fully REDD-ready (*i.e.*, not yet prepared to implement a robust sector-based crediting program). By providing market incentives for those developing projects, such projects are more likely to be undertaken. As more projects are undertaken by those at the grassroots, incentives will be created and pressures brought to bear upon the subnational jurisdictions to become REDD-ready. California thus could provide an important incentive for the bottom-up development of REDD projects rather than waiting for the top-down development of sector-based crediting programs.

This approach also avoids one of the major pitfalls that may be encountered when waiting for subnational partner jurisdictions to become REDD-ready: California may become hostage to other considerations within those developing countries — *e.g.*, the competition for REDD credits between the national governments seeking to meet their Nationally Appropriate Mitigation Actions ("NAMAs") under the Bali Action Plan and the interests of the subnational jurisdictions and civil society. California can continue to work in partnership with subnational jurisdictions to develop fully operable sector-based crediting programs while still providing modest market incentives. Again, as noted above, doing so may help to ensure that REDD strategies are pursued during this time of sustained international economic crisis rather than other more immediately remunerative strategies that exacerbate rather than mitigate climate change.

4. COPC Recommends that ARB Reconsider its Initial Proposal to Utilize a Crediting Baseline of 50% Below the Business as Usual Reference Level.

COPC strongly recommends that ARB reconsider its preliminary suggestion that the crediting baseline for nested REDD projects be set at 50% below the business as usual ("BAU") reference level ("RL").[2] We do not dispute that the first share of reductions below the RL should be credited to government policy, possibly for purposes of meeting those developing countries' obligations under their NAMAs. However, a crediting baseline of 50% below the RL will be too difficult to meet and thus will fail to harness market incentives to reduce emissions.

In addition, it should not be for California to say how REDD emission reductions below the RL achieved by REDD strategies are divided-up amongst those in the developing countries. It may be perfectly reasonable and appropriate for the bulk of these credit to be applied to one country's NAMA, while in another the bulk may be reserved for private actors. California's role should be limited to ensuring that the offsets generated by the REDD projects meet the AB 32 requirement that they be real, verifiable, enforceable and permanent. In sum, California should leave it to its partner jurisdictions to determine how far below the RL the crediting baseline should be. From the standpoint of climate policy, all reductions below the RL should receive credit — though of course only once. Besides, California's partner jurisdictions will decide what portion should be attributed to government policy in those countries regardless of what California might recommend. California's subordinate though critically important role is to provide market incentives to whatever portion of the REDD credits remains.

[2] COPC appreciates ARB's solicitation of input on how best to set the RL. However, we opt not to weigh-in on this issue now, except to say that we commend ARB for its thoughtful and deliberate effort to develop a scientifically valid methodology.

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C. <u>Conclusion</u>.

Once again, we thank ARB for this opportunity to submit these comments. We'd be happy to provide additional information. Please feel free to contact the COPC's California representative at Beveridge & Diamond, PC, Nico van Aelstyn, at nvanaelstyn@bdlaw.com and (415) 262-4008.

Sincerely,

Roger Williams, Chairman
CARBON OFFSET PROVIDERS COALITION

cc: Mary D. Nichols, Chair, ARB (mnichols@arb.ca.gov)
James N. Goldstene, Executive Officer, ARB (jgoldste@arb.ca.gov)
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Attachment

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COPC Members

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