COMMENTS ON ARB'S PRESENTATION ON SECTOR-BASED CREDITING & SUBNATIONAL REDUCING EMISSIONS FROM DEFORESTATION & DEGRADATION (REDD) ON JULY 30, 2010

Submitted by:

Coalition for Emission Reduction Projects (CERP)

Submitted to:

California Air Resources Board
Cap-and-Trade Program

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I. Executive Summary

The Coalition for Emission Reduction Projects (CERP) appreciates this opportunity to provide comments on the Air Resources Board (ARB) July 30th staff presentation on Sector-Based Crediting and Subnational Reduced Emissions from Deforestation and Forest Degradation (REDD). CERP supports reliance on environmentally rigorous offsets, including REDD offsets, to provide cost-containment in the California cap-and-trade program. In the comments below CERP makes the following points:

- CERP strongly supports ARB's intention to design a REDD offsets framework that enables crediting of offset projects "nested" within a state- or province-level deforestation baseline.

- CERP recommends extrapolating the trends in historic deforestation rates into the future to establish a projection of business-as-usual deforestation (the reference level).

- CERP strongly recommends establishing a crediting baseline that closely tracks the reference level during the early years of a state or province's participation in order to encourage early investment into deforestation reduction projects. Early investment will help build capacity for greater public sector involvement in deforestation mitigation. A crediting baseline that trends towards zero over time will require the host state or province to achieve significant emission reductions below business-as-usual; the "gap" between the reference level and the crediting baseline will be addressed through emission reduction activities that do not receive offset credits.

- CERP also strongly recommends allowing certain states and provinces that are not yet capable of generating state- or province-level baselines to host REDD offset projects that are measured against a project-level baseline. Crediting projects in these states and provinces has been recognized as a key mechanism for building public sector capacity by many major environmental organizations and was included in the climate change bill passed by the House of Representatives in June of 2009.

- CERP recommends the use of third party verifiers to confirm that benefit sharing requirements associated with REDD projects have been met.

II. Introduction

CERP is a coalition of companies that develop and finance GHG offset projects as well as companies that expect to be subject to GHG regulation and want the ability to use offsets to meet their compliance obligations. Some of our members operate within California as offset project developers and investors; others anticipate being subject to allowance surrender requirements. All of our members support the goal of ensuring that California creates an environmentally rigorous and highly functional offset system as a model for other regional and federal cap-and-trade programs.

CERP's mission is to educate policy-makers and the general public about the benefits of using offset credits from GHG emission reduction projects[1] in uncapped sectors of the economy and in other countries as a means of meeting emission reduction goals. Utilizing offset projects expands the universe of mitigation opportunities, which can substantially lower the costs of mitigating the risk of climate change.

CERP aims to be a constructive voice in ongoing policy design efforts. Our members have diverse interests and views on climate change policy, but are united around the following principles:

- Limiting GHG emissions is best accomplished through a market-based program.

- Any GHG regulatory program should allow regulated entities to meet their reduction requirements through the use of offset credits from a range of domestic and international emission reduction activities.

CERP believes that offset credits only should be available for projects that achieve emission reductions that are additional, permanent, independently verified, enforceable, and measurable.

A list of CERP's members is provided in Appendix A to these comments. CERP's recommended policy principles on offsets are provided in Appendix B to these comments.

III. Comments

ARB staff have posed a series of questions about how to structure the REDD program. CERP has developed responses to several of these questions. The responses follow:

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[1] Unless otherwise stated, references in these comments to "offset projects" or "emission reduction projects" describe projects involving the reduction, avoidance, sequestration, or destruction of GHG emissions.

A. What is the best method to establish sector-wide reference levels for host states?

For REDD as for other sectors, CERP recommends using historic emissions data to establish sector-wide reference levels (also known as a business as usual (BAU) baseline). Historic emission trend lines can be projected into the future to create a reference level. CERP recommends identifying the trend in emissions rates rather than using an average of rates over a specified time period in order to develop a more accurate projection of future business-as-usual emission rates.

Reference levels may need to be updated over time to account for changes in actual observed emission rates. However, where emission rates have changed due to government policies or offset projects, the reference level should not be changed to "negate" the efforts made by governments and offset projects. Where governments or offset projects have reduced emissions below business-as-usual pathways, they should receive full credit for those efforts.

B. Where should the crediting baseline be set relative to the reference level baseline? How much should the host states be expected to reduce emissions before CA entities can use credits from compliance?

Ordinarily, in the design of an offset program, the "baseline" represents the emissions that occur under business-as-usual (BAU) conditions, *i.e.,* the emissions that would occur over time without the offset activity. Then, an offset activity will earn offset credits for all of the reductions it achieve below this baseline/BACU level.

CERP understands that ARB is considering using the baseline concept in a very different way in the REDD context. Notwithstanding the *actual* baseline/BAU emissions from deforestation in a state or province and the *actual* reductions from that level achieved through an offset activity, ARB is considering artificially lowering the baseline and/or delaying crediting. ARB's policy aims are to establish incentives for the state or province to: (1) achieve reductions without undue reliance on outside funding; and (2) reduce deforestation to a net zero level over an expedited period.

CERP appreciates these policy aims, but cautions ARB that the very substantial constraints on offset crediting it is considering do not necessarily serve these aims – and, indeed, could achieve outcomes that are the opposite of what ARB intends.

In particular, it is important to take into account that a substantial driver of deforestation is the lack of funding and capacity for deforestation reduction efforts in the developing world. An offset program is a policy response to this absence of funding; such a program channels essential private sector investment into REDD efforts. Therefore, the ARB should structure its program to incentivize private sector investment in REDD projects as soon as possible in order to stimulate the infrastructure development and capacity building that are prerequisites to the effective involvement of host governments in deforestation reduction efforts.

Accordingly, ARB should avoid imposing a delay on REDD credit eligibility. If REDD credits were not usable in the AB 32 system until the host state or province itself achieved some quantity of emission reductions, ARB would deprive the host state or province of private sector funding precisely when it is most needed to build capacity and incentivize policy commitments. Indeed, if crediting (and sales of credits) were delayed for such a long period, it is unlikely that there would be much, if any, up front investment in projects; the disparity between the cost of developing a REDD project and the timing and quantity of REDD credits would be too great to justify an investment. Without private sector involvement, it is difficult to see how state and provincial governments will be able to address entrenched drivers of deforestation and reduce deforestation emissions.

Rather than adopting a crediting delay, ARB should establish a crediting baseline that closely tracks the reference level during at least the early years of participation by the host state or province. The crediting baseline could be lowered in the future if necessary to require a larger contribution of effort by the state or province.

In addition, the use of an artificially declining crediting baseline is a problematic approach to achieving the policy goal of ensuring that participating states and provinces achieve zero net deforestation by a certain date. If the crediting baseline assumes zero net deforestation over a very expedited period, it severely reduces the proportion of emission reductions that is eligible to earn offset credits. Again, if offset credits are not available for REDD activities, the private sector will direct its resources to other activities. Furthermore, a crediting baseline that trends rapidly toward zero imposes a prohibitively large burden on the host state or province to reduce emissions on its own.

Accordingly, this approach is highly unlikely to incentivize the participation of either the private sector or host states or provinces. In order to reduce deforestation emissions, it will be critically important to establish a crediting baseline that facilitates private sector investment and that does not place an unreasonable burden on the host state or province.

CERP urges ARB to consider alternative approaches to the crediting baseline. We are aware of substantial international research activity on this issue, and would be pleased to connect ARB with these efforts.

Project-level crediting

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As discussed above, private sector finance and offset projects play a crucial role in incentivizing and laying the foundation for further deforestation mitigation efforts. For this reason, CERP urges ARB to consider crediting offset projects against project-level baselines in those poorer states and provinces not yet capable of developing the data necessary for a sector- or province-wide BAU reference level. Discounts for leakage and methodological constraints could be applied to such projects in order to guard against any leakage risks. By incentivizing investment in deforestation reduction in these states, project-level crediting can support the collection of data on deforestation rates and the development of greater capacity at the state or provincial level. For these reasons, project-level crediting for 8-16 years—as well as taking other steps to incentivize early investment in deforestation mitigation—has been a central recommendation of the Tropical Forestry and Climate Coalition[2] in the context of the development of federal climate legislation.

C. How to establish safeguard (benefit-sharing) criteria that can be tracked and verified?

CERP supports the use of the third-party verification process to evaluate the achievement of benefit-sharing safeguards. If benefit-sharing requirements are built into the protocols for REDD projects, verifiers will be able to confirm that they have been met.

IV. Conclusion

We appreciate your consideration of our comments, and look forward to working with you to create a workable and environmentally effective REDD offset program.

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[2] TFCC members include CERP members PG&E, El Paso Corporation, Duke Energy, and American Electric Power and also the following NGOs: Conservation International, Environmental Defense Fund, Mercy Corps, National Wildlife Federation, Natural Resources Defense Council, Sierra Club, The Nature Conservancy, and the Union of Concerned Scientists.

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Appendix A

Members of the Coalition for Emission Reduction Projects

Alpha Natural Resources

American Electric Power

Blue Source

Camco

C-Quest Capital

C-Trade

Deutsche Bank

Dominion

DTE Energy

Duke Energy

Element Markets

El Paso Corporation

Environmental Credit Corp.

Equator, LLC

Leaf Clean Energy Company

Natsource

Noble Carbon Credits

PG&E Corporation

Verdeo Group

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Appendix B

CERP Statement of Principles

The mission of the Coalition for Emission Reduction Projects (CERP) is to educate policy-makers and the general public about the benefits of using offset allowances from domestic and international greenhouse gas (GHG) emission reduction projects as a means for regulated entities to meet their compliance obligations under any U.S. GHG cap-and-trade program.

CERP believes that any U.S. GHG regulatory program should adhere to the following principles:

1. Entities regulated under any U.S. cap-and-trade program should have the ability to achieve their compliance obligations through the use of offset allowances from qualifying emission reduction projects.

Regulated entities should have the flexibility to help meet their compliance obligations by using emission reductions from projects that are not otherwise subject to the emissions cap. Multiple studies have shown that allowing use of such offset allowances can: (1) lower costs of compliance for regulated entities and costs of GHG regulation for society as a whole; (2) create greater incentives for development and deployment of emission reduction technologies; and (3) achieve emissions reductions from sources that would not otherwise occur.

2. Offset allowances should be available only for projects that achieve emission reductions that are additional, permanent, independently verified, enforceable, and measurable.

Any U.S cap-and-trade program should include clear and rigorous rules for approval of projects and issuance of offset allowances. A credible authority should oversee administration of the offset program, with support from independent accredited third-party verifiers.

3. The project approval process should be transparent and rely on established, approved project types and methodologies, with clear procedures to approve new methodologies and project types.

The project approval process should achieve three objectives: (1) ensuring environmental integrity; (2) controlling administrative and transaction costs; and (3) providing for investment certainty as early as possible. Adoption of pre-approved methodologies and a preferred list of project types eligible for streamlined approvals will reduce compliance costs and investment risks, thus encouraging greater market participation. Similarly, a streamlined and transparent process for approval of new methodologies will provide necessary incentives for the development and deployment of new technologies.

4. Offset allowances should be available from an expansive set of sectors, activities, and countries.

Any U.S. emissions reduction program should focus on environmental integrity of projects and their compliance with the relevant standards created by the program. All project types that are not otherwise subject to emissions limits and that can comply with the applicable standards should be eligible.

5. Any U.S. GHG regulatory program should allow for the use of offset allowances from international projects.

Climate change is a global environmental issue. As such, geographic location should not limit the ability of a project to qualify under a GHG regulatory program. Indeed, many low cost opportunities for reducing emissions are in developing countries. Accordingly, allowing for the use of reductions from such countries not only will lower the costs of compliance with the U.S. program, it will provide a means of transferring U.S. clean energy technologies and expertise to the developing world. Importantly, allowing use of international offset allowances for compliance purposes provides an opportunity for the U.S. to demonstrate its leadership on the issue of climate change and to engage with the global community in reducing emissions.

6. Entities that implement emission reduction projects prior to the establishment of a U.S. regulatory program, and that meet the applicable standards for project eligibility, should be awarded offset credits.

Entities (not just those subject to emissions limits) that implement otherwise-qualifying projects should be provided offset credits for reductions achieved by those projects prior to enactment of GHG regulatory legislation.