Potential Amendments for Sector-Based Offset Credits in California’s Cap-and-Trade Program

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International Engagement

California Agreements with States and Regions throughout the World

North America
- United States
  - Connecticut
  - Illinois
  - Massachusetts
  - Maryland
  - New York
  - Oregon
  - Rhode Island
  - Vermont
  - Washington
  - Wisconsin
- Pacific Coast Collaborative
  - British Columbia
  - Oregon
  - Washington
- Quebec and California
- Cap-and-Trade Linkage
  - Quebec
- Mexico
  - Ministry of Energy
  - Ministry of Environment
  - Baja California
  - Chiapas
  - State of Mexico

Europe
- Netherlands

Asia
- China
  - National Development & Reform Commission
  - Ministry of Environment
  - Beijing
  - Chongqing
  - Guangdong
  - Inner Mongolia
  - Jiangsu
  - Shanghai
  - Zhangjiang
  - Shenzhen
- India
  - Forum of Regulators
- Japan
  - Osaka
- Malaysia
- South Korea

South America
- Brazil
  - State of Acre
- Chile
- Peru

Middle East
- Israel
Background on Sector-Based Offset Crediting

- **Sector-based Offset Credit Program** – Jurisdiction-wide crediting program in subnational jurisdiction in developing country

- GHG emission reductions measured across a whole sector within a jurisdiction’s geographic boundary, rather than within a single project boundary.

- Cap-and-Trade Regulation allows sector-based offset credits issued by approved sector-based offset credit programs for compliance if the Board finds they meet rigorous criteria.

- Criteria for sector-based offset credits are the same as for domestic project-based offset credits.

- Real, quantifiable, verifiable, quantifiable, permanent, enforcement, additional
Benefits:
- Developing jurisdiction-wide, sector-based program incentivizes low-emissions planning throughout jurisdiction (helps mitigate emissions leakage)
- Jurisdiction-wide planning may lead to reductions in other sectors within jurisdiction
- Crediting begins after meeting sectoral performance standard, ensuring additionality
- Cost-containment for California covered entities within existing 8% offset quantitative usage limit

Sector-based offset limit:
- 3rd Compliance Period—4% of total obligation
Why the tropical forestry sector?

- Focus: Reducing Emissions from Deforestation and Forest Degradation (REDD) Programs
- Addresses significant portion of global emissions (roughly 11%-14%)
- Tropical forest sector is a heavily studied sector
- California program already includes domestic forestry offsets
- Multiple co-benefits, including:
  - Link to California precipitation
  - Biodiversity
  - Forest-dependent community livelihoods
  - Water management
  - Soil conservation
Why is California interested in tropical forests?

- AB 32 calls for California to take leadership role
- Climate change cannot be addressed without addressing deforestation, including tropical deforestation
- Many co-benefits of reducing deforestation
  - Benefits to preserving California’s forests
  - Research indicates link between tropical deforestation and reduced California precipitation
- Important for cost-containment for Cap-and-Trade covered entities
- Cost-effective mitigation mechanism
- Engages developing countries in low-carbon growth
- Called out in 2008 AB 32 Scoping Plan and again in 2014 First Update to the AB 32 Scoping Plan
Current tropical forest work in California

- Governors’ Climate and Forests Task Force (GCF)
  - Formed in 2008
  - Information and best practice exchange between 29 subnational jurisdictions to date
  - Each jurisdiction is enacting legal structures to improve forest management
  - Annual meetings to share experiences between members who are developing jurisdiction-level REDD programs
  - Rio Branco Declaration – goal of 80% reduction in tropical deforestation by 2020, contingent on financing
Current tropical forest work in California (2)

- MOU signed with Acre, Brazil and Chiapas, Mexico
  - Established in 2010, established REDD Offset Working Group (ROW)
  - Technical and policy experts worked for two years to develop set of recommendations; presented in July 2013
  - Recommendations assessed in ARB staff white paper
- Ongoing engagement with U.S. Department of State
  - Federal climate negotiators welcome California’s REDD work
  - Continued coordination to facilitate shared understanding and discussions with other jurisdictions
- USAID has consulted with California regarding that agency’s efforts on tropical forests
Cap-and-Trade Regulation includes placeholder provisions for sector-based crediting, and for REDD programs

Sections 95991-95995

- Sector plan
- Transparent MRV system
- Transparent performance metric system
- Offsets are real, quantifiable, permanent, verifiable, enforceable, and additional
- Public participation and consultation required in the program design process
- If jurisdiction allows nested projects, projects must fit within program accounting and include additional project-level MRV requirements
What are others doing on tropical forests?

United States of America
- Spends $130 million per year on REDD readiness/capacity building. Financing vehicles through State Department / USAID

Kingdom of Norway
- Norway’s International Climate and Forest Initiative supports the development of REDD around the world with $517 million per year

Many Others
- Dozens of tropical forest countries are progressing towards REDD Readiness (Brazil, Peru, Mexico)
- Subnational efforts, including GCF jurisdictions
- Voluntary markets
- Indigenous coalitions and other communities have begun developing standards and programs for implementing REDD initiatives
- UNFCCC Paris Agreement – Article 6
Why is California leadership needed now?

Capacity Building → Compliance

- Important initiatives have begun, but there still exists an ambition and financing gap to longer-term design and implementation
- Next-Step: Recognition in Compliance Markets
- California is well-positioned:
  - Existing Cap-and-Trade Program
  - Historic engagement in this sector
  - Predicted offset shortfall, so a need within California’s program
  - Already includes international offset credits (e.g., offsets issued by Québec)
  - Can set robust standards others will follow
  - Overall climate leadership – recent example being the Under 2 MOU
ROW Recommendations

- **Policy Considerations**
  - Require robust community engagement and social safeguards
  - Effective government enforcement and oversight
  - Legal framework

- **Technical Considerations**
  - Setting forest inventory baselines/reference level
  - Tracking system/registry
  - Ensuring real reductions
Past concerns include

- Some commenters have expressed preference for limiting emissions reductions to California.
- Offsets are only eligible for use up to 8% of an entity’s compliance obligation.
- Difficult to approve new domestic offset protocols - most emissions already being regulated in California.
- 100% of Cap-and-Trade proceeds spent on reducing GHG emissions in California.
- Many existing programs to address GHG emissions, as well as criteria and toxic air pollutants in California.
- Section 38564 of AB 32 specifically calls for California to consult with other jurisdictions to facilitate the development of integrated, cost-effective, international GHG reduction programs.
Past concerns include

- Some commenters expressed concerns that REDD projects negatively impact rights of local people
- Public participation and consultation at the local level is a regulatory requirement
- Increasing engagement by indigenous and local community coalitions (e.g., COICA and AMBP)
- California is only considering sector-based crediting programs at the jurisdiction scale – not one-off projects
- Best-practice safeguard standards like REDD+SES or the UN-REDD Program’s Social and Environmental Principles and Criteria
- Some commenters concerned about reversal
  - Similar to our domestic forestry protocol; manage risk through buffer pool, large jurisdiction, “own effort” provisions
Programs most ready for inclusion

- Acre, Brazil
  - Advanced policy
    - 1st operational framework for jurisdictional REDD
    - Social Safeguards – Indigenous rights to resource use, public participation by indigenous/local groups ensured
    - Forest-dependent communities benefit from carbon revenue
  - Advanced technical considerations
    - Deforestation reference level and target level established
    - Carbon registry already operating (issuance, tracking, and retirement of credits)
    - German development bank bridge financing aiding to continue program until carbon revenue begins

- Other Advanced programs
  - Brazilian states of Mato Grosso, Amazonas, and Para
  - Mexican states, engaging with national government
Potential Next Steps

1) Stakeholder workshops and technical meetings (3 scheduled for next few months)
   - Reference levels, crediting baselines, scope, quantification, verification, enforcement, social and environmental safeguards

2) Continued coordination with partners
   - GCF, Québec and Ontario, U.S. Department of State

3) Administrative Procedures Act Requirements (rulemaking)

4) SB 1018 Governor Linkage Findings
   - Jurisdiction’s program must be equivalently stringent with enforceability and no liability for California
   - Similar type of review as Québec linkage
Summary

- We cannot fully address climate change without addressing emissions from deforestation of tropical forests.
- GCF jurisdiction partners are developing robust programs.
- California recognition can set high standards and leverage further emissions reductions and co-benefits.
- Limited domestic offset protocols because most emissions in California are already regulated.
- Offset credit shortfall predicted beginning in 2018.
- Sector-based offset crediting provisions already exist in the Cap-and-Trade Regulation.
- Continue to engage on technical design elements through workshops and rulemaking process.