

International Forestry and California's Cap and Trade Program

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Today's Presentation Overview

California's cap-and-trade regulation

- International forest carbon phase in RED
- Linkage agreements with external programs
- Sector-based crediting
- Nested activities
- Invite Discussion and Feedback

Today's Presentation Overview

- **California's Global Warming Act (AB 32) of 2006**
 - Reduce GHG emissions to 1990 levels by 2020
- **Climate Change Scoping Plan**
 - Combination of market mechanisms, other regulations, and voluntary measures
- **Cap and Trade (Preliminary Draft Regulation)**
 - International Forest Sectoral Crediting
- **2012-2020: Cap and Trade Compliance periods**

Timeline Cap-and-Trade

- November 2009: Draft of a cap-and-trade concept regulation (released)
- Late fall 2010: Board to consider adopting cap-and-trade rule
- 2010-2011: Establish linkage agreement requirements

If adopted regulation allows provisions for international credits:

- 2011-2012: Continue work on offset sector-based crediting program
- 2012-2014: Possible development of a pilot test of nested sector-based crediting program

Offset Crediting Pathways

Cap-and-Trade

- **Two Types of Crediting Options under consideration:**
 - **ARB Issued Offset Credits:**

ARB Issues forest carbon offset credits directly to eligible activities
 - **External Program Offset Credits:**

ARB accepts credits from external credit-issuing programs through a linkage agreement.

Linkage Agreement International Forest Carbon

Establish linkage agreement between developed & developing country state/provinces:

- **Two types of Linkage Agreements**

 - Bilateral (2-way)

 - Unilateral (1-way)**

- **Linkage Agreement**

 - Inventory, MRV, state-project level accounting, registry, etc.
 - reconciliation of nested projects with state-level accounting
 - Verify carbon ownership and return of carbon value
 - Distribution system returns some carbon value
 - Safeguards – protection & participation (FPIC), dispute resolution

Offset Limit cap-and-trade

Draft regulation released in November 2009:

- Offsets limited to 4% compliance obligation
- Demand: 122 MMT (2012-20)
8 MMT p/yr (2012-14) 16 MMT p/yr (2015+)
+ WCI (2012) → 16 - 32 MMT p/yr
- RED sector-based credits would need to fit within overall offset limit
- ARB considering whether to adjust offset limit to ensure cost containment

Possible Phase-In Approach International Forest Carbon

- **Starting with Pilot and R-E-D:** Conservative approach which brings credits into market and increases legitimacy
- **Focus:** High deforestation hotspots/frontier areas where deforestation is significant contributor to economy-wide emissions
- **Nested Sectoral Crediting:** combines forest sector accounting at state/province level with existing infrastructure for project-based activities

General Approach Sectoral Crediting Program

Preliminary Standards for Sector-Based Crediting

- BAU formula includes historic emissions (10-15 years averaged 1990-2005)
- Partner state achieve reductions toward net zero deforestation
- State achieves crediting baseline below BAU
- Forest carbon credits are accepted in market below crediting baseline

General Criteria Sectoral Crediting Program

- **Why sectoral nested crediting approach?**
 - Additionality, Leakage
 - Environmental Integrity
- **California is exploring:**
 - Technical
 - inventory, MRV, enforcement
 - Scientific/policy
 - BAU, Crediting Baseline, nested reconciliation
 - Community Participation
 - Revenue sharing, consent, transparency

Possible Phase-In Approach “Nested” Sectoral System

- **Several steps will be needed before California could accept sectoral credits**
- **Possible steps for this could be:**
 - **First Compliance Period (2012 – 2014)**
 - Readiness
 - Linkage Agreement
 - Architectural system developed and implemented
 - sectoral accounting, inventory, project reconciliation at state level
 - Possible Pilot Program
 - **2nd Compliance Period (2015 – 2017)**
 - RED offsets post-pilot

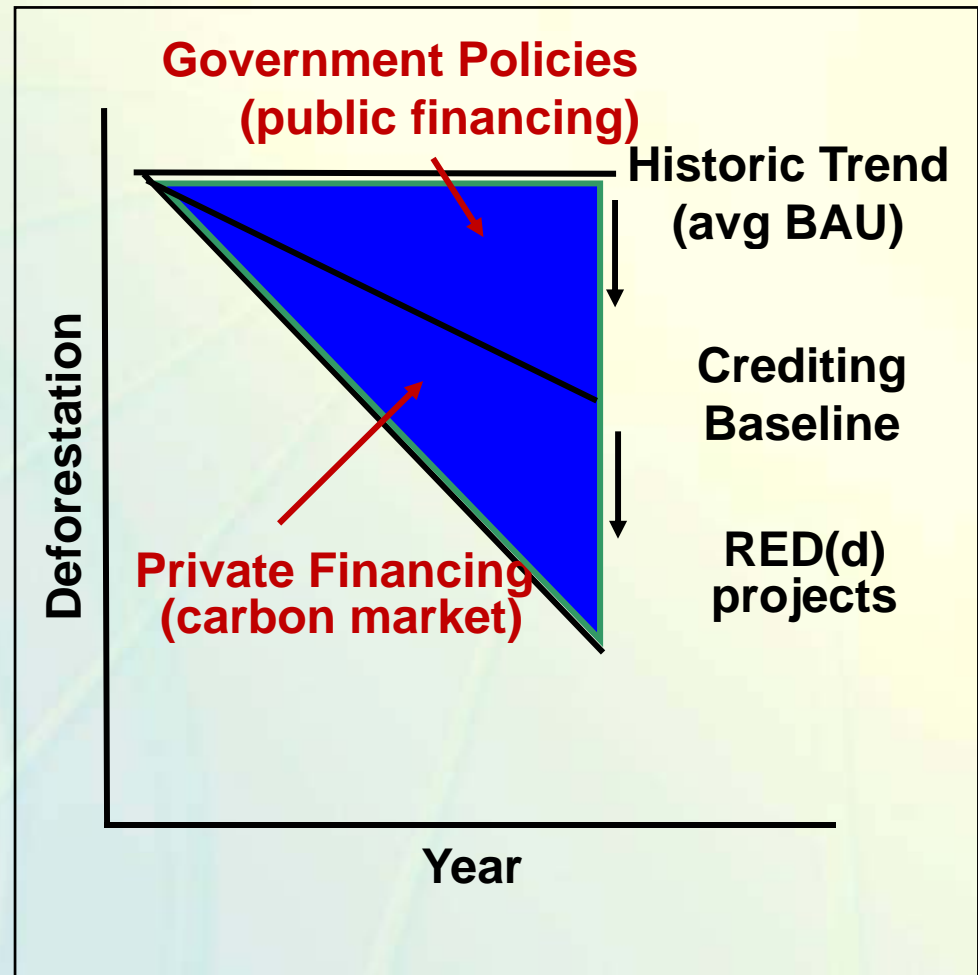
International forest carbon Options for California

An approach for California to incorporate international forest carbon credits in its cap-and-trade program could include:

- 1.Reducing Emissions from Deforestation (RED) as starting point
- 2.Standard approach for BAU & Crediting Baseline
 - 1.BAU: 10 YR historic average
 - 2.Stock-Flow approach (High stock low deforestation states with high threat)
- 3.Crediting baseline > 50% below BAU toward net “0” deforestation with defined minimum forest cover

“Nested” Sectoral Crediting Mechanism

- **Forest Sector BAU:** Based on 10-15 yr historic trend (account for LDHT states)
- **Crediting Baseline:** Province/State achieves reductions through government actions (public)
- **Carbon Market:** Sectoral forest credits thru Nested projects



Critical issues to be resolved:

1. Start-to-finish transparency on financing to verify flow of payments
2. Community-level benefit-sharing
3. Tenure validity/ assurance (3rd party verification)
4. Free prior informed consent, dispute resolution, public participation
5. Accountability

Sectoral Infrastructure Enforcement in a compliance market

1. Enforcement
2. Protection for nested RED credits
 - If state does not maintain crediting baseline
 - Unintended or unanticipated loss or fire
 - Establish Buffer Reserve – shared
 - contributions by state
 - Contributions by the project developer
3. State and project levels monitoring and reconciliation of credits

Summary

1. Sector-based Crediting Program
 - BAU, Crediting Baseline
2. Phase-In R-E-D
3. Linkage with External Partners for nested program
 - Credits can be issued by ARB and linked external programs
 - maintains private sector momentum and provides easier enforcement pathway
4. Transparency of revenue flow (benefit sharing), tenure, safeguards
5. Supply-side estimates needed

Contact Information

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<http://www.arb.ca.gov/climatechange>

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<http://climatechange.ca.gov>

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