



November 16, 2015

Rajinder Sahota, Branch Chief, Cap-and-Trade Program  
California Air Resources Board (ARB)  
1001 I Street  
Sacramento, CA 95814

RE: Potential Role of Sector-based Offsets in the California Cap-and-Trade Program

Dear Ms. Sahota:

The American Carbon Registry (ACR), an ARB-approved Offset Project Registry (OPR) for the California cap-and-trade program, commends ARB for initiating a process to incorporate into California's cap-and-trade program sector-based offsets from reduced emissions from deforestation and forest degradation (REDD). We appreciate the opportunity to provide comments.

ACR supports California's potential inclusion of well-designed sectoral crediting mechanisms for REDD+ activities and applauds ARB's global leadership in this area. The inclusion of REDD+ in California's cap-and-trade program offers the benefit of reducing deforestation in key international jurisdictions, while also providing potentially large-scale emission reductions to fill the offset supply gap that ACR and others have forecast, helping to contain costs for capped California entities.

ACR believes the science underpinning REDD+ is sound, making it possible to ensure the environmental integrity of emission reductions from REDD+ activities. In addition, we believe that a well-designed REDD+ program can achieve multiple social and environmental objectives in the partner jurisdictions, including supporting sustainable livelihoods and poverty reduction in local communities, while providing biodiversity and other ecosystem benefits. To achieve these broader objectives, it is critical to incorporate safeguards to ensure that the rights of local stakeholders are recognized, that they have been effectively engaged in and support the REDD+ project/program, and that they will share in the benefits.

ACR's parent organization, Winrock, has been a recognized global leader in the field of measurement and monitoring of carbon in land use activities for some 20 years. Indeed, we appreciate that Winrock's current work with the Governors' Climate and Forests Task Force (GCF) was mentioned in ARB's Staff White Paper on the potential inclusion of REDD offsets (Oct. 19, 2015). In 1992, Winrock's board of directors approved an internal investment to develop scientifically robust measurement and monitoring methods for carbon sequestration projects focused on forestry and agricultural systems. Winrock played a central role in the first U.S. forest carbon and international REDD projects developed almost 15 years ago and since then has been at the epicenter of the development of the science of carbon measuring and monitoring methodologies for terrestrial carbon sequestration projects, as well as the development of innovative approaches to address concerns about permanence and leakage. Winrock also builds capacity of individuals, organizations, and governments around the world to measure and monitor emissions reductions from terrestrial carbon sequestration projects.

Building on this experience, in 2011 Winrock and ACR convened a high-level technical team that worked

for over a year to develop the [ACR Nested REDD+ Standard](#) (generally referred to as the *Standard* hereafter), which we hope can help to inform California’s requirements for sectoral REDD+ crediting. The *Standard* provides requirements for project-level REDD+ activities nested within a jurisdictional accounting framework to register emissions reductions on ACR. The *Standard* does not attempt to prescribe how jurisdictions should design their accounting frameworks, but rather ensures that key minimum criteria are met for a nested project to register emissions reductions. Project activities must follow baseline, leakage, monitoring, and other technical requirements developed at the jurisdictional level, which must meet criteria as defined in the *Standard*. Equally important, the *Standard* specifies how differences in project-level and jurisdiction-level performance can be reconciled, and defines social and environmental safeguard requirements based on internationally recognized approaches. Some of the relevant elements of the *Standard* are highlighted in our more specific comments herein.

ACR was pleased to participate in all three REDD Offset Working Group (ROW) workshops prior to issuance of its recommendations and appreciates the opportunity to provide comments on the technical, architecture, and safeguards aspects of the ROW recommendations, as presented below (numbering corresponds to that used by the ROW for its recommendations).

## **2.1 Determining the Scope of REDD+**

Winrock and ACR agree with the ROW’s recommendation that Partner Jurisdictions should account for emissions from deforestation and forest degradation in their jurisdictional REDD+ programs, adding removals through carbon stock enhancement when appropriate. This ensures that significant sources of forest-related carbon emissions are covered. Many drivers of forest degradation exist, and the ROW recommendations refer to “logging, fire, human use, or other activities.” Human use and other activities should consider such activities as selective logging, forest fires, overgrazing, fuel wood harvest, and forest clearing that does not qualify as deforestation due to its small scale nature. While logging and forest fires are likely to be observed and quantified most easily using remote sensing methods and are easiest to attribute to a specific driver of change, they are unlikely to compose 100% of all degradation activities across the states and provinces included in the GCF.

## **2.2 Reference Levels, Additionality and Own Effort**

The ROW recommends that Partner Jurisdictions base their reference levels (RLs) on a ten-year average of annual emissions during 1995-2010, using the best available data. They also acknowledge that under certain circumstances, the RL may be adjusted from the historical average to account for rigorously justified state-specific circumstances. While we agree the ten-year historical average may be the simplest approach to setting a RL, it is not necessarily the most conservative.

For example, if states in Indonesia included the late 1990s in their RL (as is allowable for a ten-year average within a window of 1995 to 2010), then the RL would be higher than if these years were not included, as the late 1990s were a unique period of massive deforestation and peat drainage associated with the Mega Rice Project. As currently written, the text in the recommendations provides the option for jurisdictions to adjust their RL to account for state-specific circumstances. While there may be incentive to do this in cases where states want to raise their RL, and therefore maximize their crediting opportunities, states are unlikely to voluntarily decrease their historically based RLs.

Therefore, we suggest that ARB rules address cases where the historical average results in a higher RL than is likely to be realistic in a future projection scenario.

## 2.3 REDD+ Architecture

### 2.3.1 Crediting Pathways and Nested Crediting

ACR agrees with the ROW's recommendation that a "cap-and-trade program Administrator like California should not issue credits directly to REDD+ Partner Jurisdictions, but instead recognize credits issued by Partner Jurisdictions or approved third-party programs that meet California's requirements." We agree that there is a significant opportunity for California to leverage existing ARB-approved OPRs to achieve its goals. Jurisdictions solely responsible for crediting themselves would incur a conflict of interest in that they would have an incentive to maximize credit issuance. Involvement of OPRs would help address this conflict. Also, jurisdictions cannot reasonably be expected to pursue downward adjustments in RLs, even when justified. OPRs could play a role in flagging issues of RL integrity. Finally, the complex nature of REDD crediting and the shared interest in ensuring integrity of all issuances warrants the additional level of assurance provided by OPRs.

ACR offers uniquely strong value as an OPR, as we can bring to bear the expertise of Winrock. Winrock authored the *ACR Nested REDD+ Standard* and served as technical lead for the development of the Verified Carbon Standard (VCS) jurisdictional REDD+ accounting. Furthermore, Winrock has provided or is currently providing technical leadership for the design of RLs and MRV systems for national and subnational REDD+ programs under the UNFCCC for 16 countries, including Cambodia, Chile, Colombia, Costa Rica, Democratic Republic of the Congo, Ghana, Guatemala, Guyana, Indonesia, Kenya, Laos PDR, Liberia, Malaysia, Mozambique, Peru, and Vietnam. This experience, along with Winrock's physical presence in many GCF jurisdictions, would provide an especially strong capability to ensure that REDD+ programs are operationalized with respect to the full letter and intent with which they have been designed.

The ROW document points out that "California's cap-and-trade regulations (and associated staff report) propose two pathways for crediting international sectoral policies and measures (including REDD). Specifically, jurisdictions could be credited for sector-wide emissions reductions achieved, and/or project developers could be credited for projects that are nested within a jurisdiction-wide sectoral program."

As highlighted earlier in our letter, recognizing the benefits to the current market of creating a mechanism to register "nested" projects, the ACR has published its [ACR Nested REDD+ Standard](#), which we hope can provide options for approaches to some of the complex design elements for sectoral REDD+ crediting as California's develops its requirements. This *Standard* provides registration requirements for project-level REDD+ activities – including conservation of forest carbon stocks, sustainable management of forests, and enhancement of forest carbon stocks – following baseline, leakage, monitoring and other technical requirements developed at the jurisdictional level, provided these meet criteria specified in the *Standard*. A "nested" REDD+ project is one that is accounted and monitored in reference to the jurisdictional accounting framework (baseline, leakage assessment, monitoring requirements) in which the project takes place. This can have the benefit of reducing transaction costs for projects, allowing the use of the baseline and other requirements developed by the jurisdiction rather than having to develop these at the project level. Meanwhile, creating such frameworks can help jurisdictions attract private capital for REDD.

It is important to note that the *Standard* does not prescribe how jurisdictions should design their accounting frameworks, but does set threshold criteria that must be met in order for a project nested within that framework to register on ACR. Equally important, the *Standard* specifies how differences in

project-level and jurisdiction-level performance can be reconciled. We recognize that jurisdictional REDD programs will be more significant drivers of large-scale emissions reductions than nested projects, however it is important to present rigorous mechanisms that can enable crediting from nested projects in cases where both jurisdictional and project-level crediting are allowed by the jurisdiction.

### 2.3.3.1 Leakage

The ROW recommends that Partner Jurisdictions develop frameworks and mechanisms that seek to eliminate the risk of international and interstate market leakage, by increasing production of deforestation- and degradation-driving commodities at a similar level to what would take place in the absence of the REDD+ program. This would be done by intensifying yields on lands already cleared and through reduced impact forest management. In addition, the ROW recommends Partner Jurisdictions account for any residual interstate leakage, ensuring only net GHG reductions are credited.

We agree with these approaches and would like to highlight the importance of including in the leakage accounting changes in emissions in other sectors; otherwise, there is potential for cross-sectoral leakage (i.e., emission reductions in one sector result in increases in emissions in another sector). The precedent exists in the CDM and in voluntary markets to account for these types of emissions: for example, emissions from fertilizer use, livestock displacement or intensification, etc. are included in forestry projects in many CDM and voluntary methodologies. The same type of accounting is also necessary at the jurisdictional scale to ensure that atmospheric integrity is maintained.

Note that the *Standard* includes an innovation for leakage accounting that may be worth consideration for adaptation in the ROW recommendations. The *Standard* proposes a Leakage Buffer Account to correct for the temporal discrepancy between crediting to a nested project and the jurisdictional leakage assessment. Since jurisdictions will only perform their leakage assessment periodically, with nested projects being verified and credited at more frequent intervals, there will be a temporal discrepancy in which projects may have been issued and sold credits before the jurisdiction attributes leakage to projects nested within the jurisdiction. This could result in a project being issued and/or selling more credits than it should actually receive, if the subsequent jurisdictional leakage assessment assigns that project more leakage; on the other hand, projects initially required to deduct leakage and subsequently attributed less leakage by the jurisdictional leakage accounting framework will have received too few credits.

To address this timing issue, the *Standard* establishes a Leakage Buffer Account for nested REDD+ projects, modeled on but separate from the ACR non-permanence buffer account. All nested projects will be required to calculate leakage per the requirements of the applicable project-level methodology, but rather than simply being deducted from net emission reductions, leakage tons will be created in the Leakage Buffer Account. This account can then be managed to correct for the temporal discrepancy: if when the jurisdictional leakage assessment occurs, a project is attributed less leakage than the tons deposited in the Leakage Buffer Account at the time of issuance, the difference can be credited back to the project by moving credits from the Leakage Buffer Account to the project proponent's account. If a project is attributed more leakage than the tons deposited in the Leakage Buffer Account at the time of issuance, the tons in the Leakage Buffer Account would be retired and the project proponent would be required to make up the difference by depositing additional credits into the Leakage Buffer Account for immediate retirement.

### 2.3.3.2 Reversals and Significant Natural Disturbances

REDD+ projects nested within a jurisdictional accounting framework face many of the same reversal risks as non-nested projects. For unanticipated natural reversals, we are pleased that the ROW document recognizes the importance of buffer mechanisms and potential insurance products. Like other programs, ACR operates a buffer pool into which offsets from the project can be deposited; or, unique in the voluntary market to ACR, the project proponent can elect to deposit other non-reversible offsets into the buffer account. This has the advantage of backing reversible tons with non-reversible tons, and is similar to ARB's acceptance of the use of CA allowances to compensate for forest carbon reversals in the CA cap-and-trade program.

We suggest ARB consider a similar option, which would allow Jurisdictions to accept non-reversible GHG reductions achieved in other parts of their low-emissions development strategy to populate both the buffer account for unanticipated reversals, and a Performance Reserve Account for crediting nested projects in the case of jurisdictional non-performance (see below).

REDD+ projects nested within a jurisdictional accounting framework may also face risks due to being nested – for example, risks of jurisdictional non-performance jeopardizing crediting to the project, since total crediting to nested projects may not exceed emission reductions and removals achieved at the jurisdictional level. On the other hand, nested projects may have access to risk mitigation mechanisms provided by the jurisdiction (or by private entities providing risk products to the jurisdiction) that non-nested projects do not. ACR thus requires jurisdiction-level risks to be addressed in the risk assessment process, and allows jurisdiction-level risk mitigation tools to be used where these exist. The *Standard* highlights some of these. For example contractual risk, such as jurisdictional government breach of commitments to a REDD+ project, must be addressed by project proponents providing documented evidence of support from the relevant government bodies, evidence of long-term contracts in similar (forestry and natural resource) sectors, and evidence of mechanisms in place to mitigate contractual risk such as political risk insurance products covering breach of contract, non-honoring of sovereign obligations, change in law, etc.

Distinct from contractual risks, nested REDD+ projects face crediting risk to a performing project (i.e. one that is successful in achieving GHG reductions) from a non-performing jurisdiction (i.e. one that does not succeed in reducing emissions below the jurisdictional reference emission level). In this case, considerations of environmental integrity would dictate that credits issued to a nested project should be reduced if deforestation in the jurisdiction has stayed the same or increased. Such jurisdictional non-performance is likely to be excluded from currently available political/contractual risk insurance products.

To mitigate such risks, the *Standard* allows nested projects to use jurisdictional non-performance risk mitigation mechanisms such as a Performance Reserve Account, replacement REDD+ credits, or conditional Emission Reduction Purchase Agreement. A Performance Reserve Account (PRA) is an account into which the Jurisdiction deposits and/or requires nested projects to deposit a portion of their credits at each issuance. In the event of project performance and jurisdictional non-performance, the project would be compensated by REDD+ credits drawn from the PRA. In this way projects are not credited when the jurisdictional reference emission level has been exceeded, but are compensated from the PRA. Jurisdictions may choose to design their PRA such that the PRA is populated partially with credits from other (non-REDD+) low-emission development strategies, provided that such credits are developed using protocols that provide real, additional, quantifiable, permanent, and verifiable

reductions. For descriptions of other jurisdictional non-performance risk mitigation options, see the *Standard*.

#### *2.3.4 Measurement, Monitoring, Reporting and Verification*

The ROW recommends that uncertainty be managed with a sliding scale discount (incentivizing an increase in certainty over time) and possibly by establishing an acceptable threshold level of uncertainty. Broadly, we agree with this approach but advise against the use of binary thresholds (i.e., eligible or ineligible), as these types of “cliffs” have the potential to encourage cheating and/or bad science. If

Partner Jurisdictions are required to meet certain requirements, the alternative to not meeting these requirements is non-participation, and the time and cost involved in collecting additional data or conducting additional analyses are too onerous, then Partner Jurisdictions will be tempted to present data in a way that fits within existing requirements.

We suggest keeping the sliding scale discount approach, but broadening recommendations to cover all scenarios. This could involve requiring Partner Jurisdictions with highly uncertain analyses to take an overly high default uncertainty deduction. The onus would then fall to the Jurisdiction to decide whether to accept the harsh penalty, collect additional data, or conclude that the Jurisdiction’s REDD+ initiative is non-viable.

Another example is related to minimizing leakage risk; if Partner Jurisdictions are required to show an increase in commodity production as a way to prove that no leakage has occurred, and the alternative is an expensive and time-consuming leakage analysis, then they will be more likely to look for ways to conduct the analysis so that the results comply with the associated requirements.

## **2.4 Development and Recognition of Safeguards**

ACR believes that a well-designed REDD+ program that incorporates rigorous safeguards can achieve multiple social and environmental objectives in the partner jurisdictions. The objective of environmental and social safeguards is to prevent and mitigate undue harm to the environment and people. For

REDD+, in addition to helping to minimize or manage risks, well-designed safeguards can go beyond “do no harm” and enhance social and environmental benefits, demonstrating achievement of objectives beyond emissions reductions such as supporting sustainable livelihoods, poverty alleviation and biodiversity conservation. To achieve these broader objectives, it is critical that safeguards are designed to ensure that the rights of local stakeholders are recognized, that they have been effectively engaged in and support the REDD+ project/program, and that they will share in the benefits. Furthermore, it is imperative that systems be in place for ongoing monitoring and reporting of impacts and benefits.

Safeguard policies generally include standards and performance indicators, against which the compliance of activities is assessed and measured, as well as processes like environmental and social assessment and stakeholder consultations<sup>1</sup> and mechanisms for reporting grievances<sup>2</sup>. Safeguard policies can also include (or not) requirements for Free, Prior and Informed Consent<sup>3</sup> and requirements for relocation, whether voluntary or involuntary.

The ROW recommends that the Partner Jurisdictions should recognize and respect the rights of indigenous peoples and local communities in their REDD+ programs, including application of the principle of Free, Prior, and Informed Consent based on the culturally-appropriate decision making

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<sup>1</sup> [FCFP/UN-REDD Guidelines on Stakeholder Engagement in REDD+ Readiness](#)

<sup>2</sup> FCPF [Guidelines for Establishing Grievance and Redress Mechanisms](#)

<sup>3</sup> UN-REDD Programme [Guidelines for Seeking the Free, Prior, and Informed Consent of Indigenous Peoples](#)



process of affected communities, as elaborated under global best practice safeguards standards, naming as an example REDD+SES.

ACR's safeguard requirements for registration of nested and non-nested REDD+ projects, outlined in Chapter 5 of the *Standard*, are in agreement with this recommendation. However, ACR has adopted multiple internationally recognized safeguard approaches, which are being implemented in jurisdictions around the world, including not only REDD+SES, but also the [UN-REDD Programme Social and Environmental Principles and Criteria](#) (SEPC) and the [World Bank Forest Carbon Partnership Facility](#) (FCPF) Readiness Fund's [Common Approach to Environmental and Social Safeguards](#).

In addition, ACR requires the following for registration of nested and non-nested REDD+ emissions reductions, which in some cases may be more stringent than the requirements of the safeguards:

- Free Prior and Informed Consent (FPIC): All projects must demonstrate the FPIC of indigenous peoples and respect and uphold the decision taken, whether consent is given or withheld;
- Relocation: ACR will not register projects in which there has been relocation, whether involuntary or voluntary; and
- Impacts: Projects must “do no harm” and go beyond this threshold to demonstrate social and environmental benefits including gender equity, full and transparent benefit sharing and enhanced social and economic well-being, and enhancement of biodiversity and other ecosystem services.

In order to ensure that REDD+ projects eligible for the California market meet the highest environmental and social standards, ARB may also want to consider adopting specific safeguard requirements in addition to adopting internationally-recognized policies such as those developed by the World Bank, the United Nations and REDD+SES.

In conclusion, ACR is encouraged by ARB's consideration of the ROW's valuable recommendations. We appreciate the opportunity to comment and look forward to continued engagement as California creates its requirements for sectoral crediting of emissions reductions from REDD. If you would like to further discuss these suggestions or any other issues affecting sectoral offsets, please feel free to get in touch.

Respectfully,



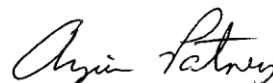
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