

Tracking Offset Developments: August 2011

This monthly summary of offsets-related developments was prepared by SEI with funding from the U.S. Environmental Protection Agency. The opinions expressed here, however, are the authors' and do not reflect, necessarily, the views of the EPA.

International developments:

1. On August 22, Australia's Senate passed the Carbon Farming Initiative (CFI), which enables the generation of tradable carbon offsets from farmland and forestry projects, such as tree plantations, reducing livestock methane emissions, reducing use of fertilizers, and improving fire management of northern grasslands. The House of Representatives is due to approve minor amendments in the bills. The offsets could be traded domestically or internationally, though a slow start is anticipated until parliament passes laws implementing a carbon price in July 2012. Under the planned carbon price scheme, Australian industries buying offsets would need to ensure at least half are from domestic credits. Summary based on: <https://www.pointcarbon.com/news/1.1571561?date=20110822&sdtc=1> (subscription required.)
2. Australia may further restrict the types of international offsets eligible for use in its emissions trading scheme. Australia has already proposed banning some offset credits, such as those generated from HFC-23 projects. Other possible exclusions could include nuclear, large-scale hydroelectric, and temporary CERs. According to proposed rules under the Australian scheme, emitters may be able to meet half of their compliance with CERs. More details [here](#).
3. China, currently the biggest supplier of credits under the CDM, may withdraw from the mechanism around 2015. Volume limits specified in post-2012 letters of approval from China's National Development and Reform Commission (NDRC) suggest supply may halt around 2015. Analysts note this may indicate that China is interested in using emissions reductions to meet domestic targets, rather than selling credits in the international market. Additional information available [here](#).
4. Japan's Ministry of Economy, Trade and Industry (METI) approved five projects which will receive funding to design feasibility studies under the country's proposed bilateral offset mechanism. Four projects focus on REDD (three in Indonesia, and one in Cambodia), and the last is an N₂O abatement project in Indonesia and Malaysia. In order to meet its target of cutting GHG emissions 25% below 1990 levels by 2020, Japan is pursuing bilateral offset mechanisms, and METI has designated \$65 million in its 2011 budget to fund potential bilateral offset project work. (Summary based on: <https://www.pointcarbon.com/news/1.1567447?date=20110809&sdtc=1> (subscription required).)
5. The EU may propose a plan to extend the Kyoto Protocol at the upcoming Conference of the Parties (COP) in Durban this November. Over the coming weeks, the 27 EU member states will discuss a potential plan to delay expiration of Kyoto to 2018, when it would be replaced by a

single global pact capping emissions in all major nations. This extension could help restore confidence in the future of the CDM. The EU is expected to agree on a collective negotiating position for the COP at a meeting of environment ministers on October 10. Summary based on Carbon Market Europe; Vol. 10, Issue 33; 26 August 2011; Available at: <https://www.pointcarbon.com/news/cme/1.1573196> (subscription required).)

CDM/JI Developments:

1. At their August 15-19 meeting, the CDM Meth Panel recommended five new methodologies for approval. The methodologies – which focus on emissions reductions from chemical, semiconductor, steel, and power sectors – still require approval from CDM’s Executive Board at its next meeting in September before they can be used. The Panel rejected two proposals related to iron and nitric acid production. One methodology concerned with improving energy efficiency in data centers was put on hold pending requested information from project developers. Additional information concerning these recommendations is available in the [Meth Panel’s 51st meeting report](#). (Summary based on: <https://www.pointcarbon.com/news/1.1573647?date=20110826&sdtc=1> (subscription required).)
2. The World Bank plans to launch the Carbon Initiative for Development (CI-Dev) fund at the Conference of the Parties in Durban this November. CI-Dev will provide upfront financing for emissions reduction projects located in least developed countries (LDCs). \$10 million will be dedicated to capacity building and drawing up methodologies, and \$50 million will be used to kick-start projects, with an additional \$70 million to be raised through the private sector and government credit purchase agreements. The fund hopes to address the limited reach of the CDM to date, with less than 1% of registered projects occurring in LDCs. This geographic target aligns with the EU-ETS – currently the greatest source of CER demand – which will only source credits from LDCs after 2012. (Summary based on: <https://www.pointcarbon.com/news/1.1568527?date=20110811&sdtc=1> (subscription required).)
3. New CDM rules in China could slow project development in the private sector. Starting in mid-August, project developers in the private sector are required to submit proposals to local National Development and Reform Commission (NDRC) offices for approval prior to sending the applications to the central government in Beijing. 41 state-owned companies have been excluded from these new regulations. The local NDRC offices will not be able to reject the proposals, but developers are concerned that this may lengthen the submission process. Timing and potential delays are particularly sensitive issues given the EU-ETS’ likely ban of offsets from non-LDC countries post-2012, and a corresponding rush for China to submit proposals prior to the ban. Other changes affect taxes levied on CER revenues: 10% (from 30%) from N₂O reduction from nitric acid production projects, and 5% (from 2%) from PFC projects. Furthermore, it is now more difficult for foreign companies to earn CERs. If a foreign company acquires majority ownership of a Chinese enterprise involved in a CDM project, all CERs earned will become property of the Chinese government and will be transferred to the national registry. (Summary based on CDM & JI Monitor; Vol. 8, Issue 6; 24 August 2011; Available at: <https://www.pointcarbon.com/news/cdmjien/1.1572740> (subscription required).)

4. The eligibility of Chinese wind energy projects in the CDM is being called into question, as construction costs have decreased 20% in recent years, and the wind market continues to grow despite post-2012 CDM uncertainty. Due to CDM's additionality rules, projects eligible for offsets should be dependent on carbon finance. However, other analysts insist that investment barriers still exist, equipment costs are not as low as assumed, and many of the best sites have already been developed. (Summary based on: <https://www.pointcarbon.com/news/1.1572697?date=20110824&sdtc=1> (subscription required).)

North American (and Voluntary) Offset Program Developments:

CARB/California:

1. IETA submitted comments to CARB concerning their latest carbon market design document, voicing concerns that buyer liability could deter offset market development and drive up allowance prices. IETA recommends establishing rigorous verification and certification standards to ensure quality offsets, and establishing a compliance buffer account which could be used to replace invalidated credits. An updated draft of regulations is expected around September 6 and will be open for public comment prior to the October 20-21 CARB board meeting where the final regulations are expected to be approved. (Summary based on: http://www.pointcarbon.com/polopoly_fs/1.1568855!CMNA20110812.pdf (subscription required).)
2. On August 24, CARB voted unanimously (9-0) to adopt an updated scoping plan, which includes further examination of alternatives to cap-and-trade and other policies, such as a low carbon fuel standard and other energy efficiency measures. CARB expects the cap-and-trade system to achieve about 20% of AB 32's goal of reducing GHG emissions to 1990 levels by 2020. (Summary based on: Carbon Market North America; Vol. 6, Issue 33; 26 August 2011; Available at: https://www.pointcarbon.com/polopoly_fs/1.1573661!CMNA20110826.pdf.)
3. CARB is considering three additional offset project types for its carbon market linked to ACR protocols, namely: reduced emissions from oil and gas pipelines by retrofitting pneumatic controllers, avoided use of nitrogen-based fertilizers, and reduced methane from flooded rice fields. CARB has already approved four offset project types: livestock manure digesters, forestry, urban forestry, and destruction of ozone depleting substances. Up to 8% of a covered facility's obligation can be met with offsets in the carbon market, expected to begin in 2013. (Summary based on: <https://www.pointcarbon.com/news/1.1572756?date=20110824&sdtc=1> (subscription required).)

RGGI:

1. On August 17, the nine states participating in RGGI's second compliance period announced a [proposed schedule](#) to prepare for the 2012 program review. A [stakeholder meeting](#) on the review preparations will take place on September 19.

American Carbon Registry:

1. ACR announced an open public comment period on the [Methodology for GHG Emission Reductions through Truck Stop Electrification](#), which was developed in collaboration with the IdleAir Technologies Corporation. Comments must be submitted by September 2. More info [here](#).
2. Three ACR offset protocols are being considered by CARB for use in its cap-and-trade program: [Conversion of Pneumatic Controllers](#), [N₂O Reductions from Changes in Fertilizer Management](#), and [Emission Reductions in Rice Management Systems](#). More info [here](#) and in CARB/California section above.

Alberta Offset Program:

1. Alberta Environment will revise the assurance level required in third party verifications in 2012. Specifically, “reasonable” assurance and “go forward crediting rules” will apply for offsets generated in 2012 and thereafter. However, 2011 offset project verifications completed by March 31, 2012 can continue to use the “limited” assurance and program rules currently in place. In collaboration with the Alberta Institute of Chartered Accountants and APEGGA, Alberta Environment is working to clarify these new verification requirements, and further guidance will be provided prior to the 2012 verifications. (Summary based on Alberta Offset Program mailing list email received August 12.)

Climate Action Reserve:

1. On August 12, CAR announced an open public comment period for draft [Nitric Acid Production Project Protocol Version 2.0](#). Comments must be submitted by September 9. A public webinar to discuss the protocol will take place on August 31. Details here: <http://www.climateactionreserve.org/how/protocols/adopted/nap/nitric-acid-production-project-protocol-revision/>.
2. On August 11, CAR submitted [comments](#) to ARB on California’s revised cap-and-trade regulation. In the letter, CAR outlines a number of recommendations to ensure integrity of the offsets system.
3. On August 8, CAR updated the [Future Protocol Development website](#), reflecting the following improvements: inclusion of project concept submission process, protocol development criteria, list of concept submissions to date, and completed issue papers.
4. On August 1, CAR released the [Beta Version 3.0 of the Livestock Calculation Tool](#). CAR recommends using this tool for livestock project calculations and reports on emissions reduction.

VCS Program:

1. The [Methodology for Transport Energy Efficiency from Light Weight Pallets](#), developed by Axios Mobile Assets Corporation, is open for public comment until September 13. Comments may be submitted [here](#).

WCI:

1. Nine written comments on the WCI Draft Offset Protocol Review and Recommendation Process, posted in July 2011, were received by the Aug. 19th deadline and can be found [here](#).

Recent Publications:

1. Published by IGES. "CDM Reform 2011: Verification of the progress and the way forward." The report analyzes the progress of CDM reform in 2011, and focus on challenges in efficiency and scale-up, regional distribution, and standardization. Report available for download [here](#).

Upcoming Events:

1. IETA announced the upcoming Carbon Forum North America 2012, which will take place March 1-2, 2012 in Washington, DC. Periodic updates will be available [here](#).
2. The sixth [Latin American Carbon Forum](#) will take place September 27-29 in San José, Costa Rica. Topics to be discussed include CDM processes and future, emissions trading schemes, and voluntary carbon markets, among others.
3. The fifth [India Carbon Market Conclave](#) will take place September 7-8 in New Delhi, India. The workshop is organized by the Federation of India Chambers of Commerce and Industry (FICCI), the World Bank, the Ministry of Environment of Forests, the Government of India, and the International Emissions Trading Association (IETA).