

Tracking Offset Developments: December 2011

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International developments:

1. While the Durban agreement outlined the potential role of new market mechanisms in a post-2012 framework, specific details have yet to be developed. Debates over the coming year will likely deal with governance structure, and whether the approach will be top-down (new mechanisms under the U.N./COP) or bottom-up (common standards that a mechanism would be required to meet). Analysts have asserted that pilot market mechanisms – Japan’s bilateral offset schemes and the World Bank’s Partnership for Market Readiness, for example – are important in proving new markets, and will likely outpace moves toward a global market until more detailed U.N. text emerges. (Summary based on [CDM & JI Monitor, Vol. 8, Issue 24, 14 December 2011](#) (subscription required).)
2. On December 11, text agreed upon in Durban noted that market mechanisms related to REDD “could be developed” at the annual climate talks. However, few details were determined, and discussions on the topic will continue. The move pleased some market observers, however, various obstacles remain, including determining details on rules, environmental integrity, indigenous rights, and MRV. An important topic of discussion in Durban was whether a REDD market should be overseen by the U.N. or by national governments. Japan noted its expectation to use REDD under its proposed Bilateral Offset Crediting Mechanism (BOCM). (Summary based on Point Carbon article [here](#) (subscription required).)
3. On December 8, Nordic countries (Denmark, Finland, Iceland, Norway, and Sweden) announced plans to pilot new market-based mechanism projects in the coming year. The two projects will aim to reduce emissions in the waste sector in Peru and cement production in Vietnam. The Nordic Partnership Initiative (NPI) seeks to demonstrate better matches for international climate finance and projects in developing countries. The Nordic Environment Finance Corporation (NEFCO), along with Nordic country governments, will finance the Peruvian project. The Vietnamese project will largely be financed by the Nordic Development Fund, in partnership with the Asian Development Bank (ADB). Though no carbon credits will be generated from these projects, they could pave the way for future crediting. Additional information available [here](#) and [here](#). (Summary based on [CDM & JI Monitor, Vol. 8, Issue 24, 14 December 2011](#) (subscription required).)
4. On December 16, Australia announced approval of a new methodology under its Carbon Farming Initiative (CFI). Under the new methodology, landholders in a variety of agricultural sectors can be awarded credits for establishing and managing permanent native forests. This is the third methodology accepted under the CFI, joining capture and combustion of landfill gas,

and methane destruction from pig manure. (Summary based on Point Carbon article [here](#) (subscription required).)

5. On December 5, the World Bank stated it would start channeling funds into its Carbon Initiative for Development (Ci-Dev) and BioCarbon Fund by mid-2012, in an attempt to increase credits sourced from the least developed countries. Ci-Dev will draw from a \$120 million fund for investments in biogas systems in Nepal, cookstoves in Africa, and municipal solid waste in Uganda. In the latest tranche of the BioCarbon fund, \$75 million could be invested in forestry and agriculture projects in countries such as Kenya and the Democratic Republic of Congo, and would also be suitable for very underdeveloped countries. (Summary based on [CDM & JI Monitor, Vol. 8, Issue 24, 14 December 2011](#) (subscription required).)
6. The Brazilian state of Rio de Janeiro is establishing the country's first carbon exchange, likely to start in 2013. Businesses will be able to trade credits to comply with mandatory emissions limits the state plans to introduce in 2012. The Bolsa Verde (Green Exchange), a partnership between the environment and finance departments in Rio de Janeiro, seeks to establish emissions caps in advance of the U.N.-sponsored Rio+20 conference taking place in the capitol in June. The exchange will focus on carbon credits, but would also trade credits for industrial effluents and mandatory rural forest coverage. Brazil is expected to pass a revised forestry code requiring farmers to set aside a greater amount of land with forest cover; the exchange hopes to introduce offsetting enabling farmers with excess coverage to sell credits to those lacking coverage. (Summary based on Point Carbon article [here](#) (subscription required).)
7. On December 22, New Zealand announced it will ban CERs from industrial gas (HFC 23 and N₂O) projects in its emission trading scheme. Australia and the European Union have already made similar announcements. The ban began on December 23, though companies that had already signed forward contracts to purchase CERs from these types of projects will be allowed to use the credits for compliance until June 2013. An amendment bill is expected to be released by the New Zealand government in 2012 announcing further changes to their emission trading scheme, including an increase in the share of companies' emissions covered. (Summary based on Point Carbon article [here](#) (subscription required).)
8. Hungary has sold the first removal units (RMUs), according to sources close to the deal. Details, such as the buyers and quantity sold, have not yet been divulged, and officials at Hungary's Ministry of National Development were unable to confirm the deal. RMUs, alternatives to AAUs and CERs, can also be used to meet goals under the Kyoto Protocol. Hungary, Denmark, France, and Switzerland selected a special accounting method allowing the countries to print RMUs annually. (Summary based on Point Carbon article [here](#) (subscription required).)

CDM/JI Developments:

1. The Durban climate talks extended the Kyoto Protocol for at least five years, which provides greater confidence in the CDM for investors. Furthermore, rules over "materiality" were passed, allowing projects to earn credits where data may be lacking. Negotiators also proposed that auditors take greater consideration of local communities' views prior to validating projects, but the proposal was ultimately dropped from the text. The Durban Platform did not extend Joint Implementation, and the decision on whether to allow JI projects to earn offsets after 2012

was postponed until next year. Additionally, no consensus was reached on the JISC's recommendation to merge the mechanism's two tracks. (Summary based on [CDM & JI Monitor, Vol. 8, Issue 24, 14 December 2011](#) and Point Carbon article [here](#) (subscription required).)

2. It was also decided in Durban that carbon capture and storage (CCS) projects will be allowed in the CDM, clearing the way for project developers to develop new methodologies. The text stipulates that project developers will need to keep a 5% reserve of credits in case carbon escapes from the underground storage. (The agreement is less stringent than a draft version, which would have required a 20% reserve.) Host countries will assume sole liability for CO₂ releases 20 years following the end of a project's crediting period, assuming it is proven that no seepage has occurred in the prior 10 years. Furthermore, project developers must demonstrate sufficient financial cover for their liability in the PDD. The decision ends a six-year debate over whether and how CCS technology should earn CERs. (Summary based on [CDM & JI Monitor, Vol. 8, Issue 24, 14 December 2011](#) (subscription required).)
3. On December 3, the U.N. launched the CDM Policy Dialogue Panel. This independent, 12-member panel will collect feedback on the CDM, make recommendations to the CDM Executive Board (EB) on how to deal with future challenges, and report to the international community during the climate talks in Qatar next year. The panel – nominated by U.N. climate chief, Christiana Figueres, and CDM EB chairman, Martin Hession – will be comprised of members equally representing the public sector, private sector, and civil society. So far, seven members have been confirmed. (Summary based on Point Carbon article [here](#) (subscription required).)
4. Confusion surrounding the eligibility of CERs in the EU has risen following decisions in Durban. Some analysts have asserted that the Durban agreement to bind all emitters to GHG reductions in 2020 overrides the EU's restriction of credits from non-LDC countries in the EU ETS after 2012, which would only apply if no "satisfactory international agreement" is made including emission reduction targets from other major economies. However, others doubted that the agreement would be considered sufficient to lift restrictions, at least in the near term. (Summary based on [Carbon Market Europe, Vol. 10, Issue 49, 16 December 2011](#) (subscription required).)

North American (and Voluntary) Offset Program Developments:

CARB/California:

1. On December 6, a San Francisco Superior Court Judge discharged a prior ruling to halt work related to implementation of CA's cap-and-trade scheme. In May, the judge had sided with environmental justice groups suing CARB for failing to study alternatives to cap-and-trade. In response, CARB published an expanded analysis of alternatives in June, reiterating its recommendation of cap-and-trade as the most cost-effective and efficient option for CA in meeting its GHG emission reduction goal. The judge has deemed the analysis sufficient, and discharged the May ruling. While the decision clears a major hurdle for the cap-and-trade system, legal challenges remain, such as the plaintiffs' appeal of part of the judge's original ruling related to CARB's authority to implement a market-based program. (Summary based on [Carbon Market North America, Vol. 6, Issue 47, December 9, 2011.](#))

2. On December 29, a federal judge ruled with the National Petrochemical Refineries Association and others who sued CARB over the Low Carbon Fuel Standard (LCFS), asserting that it discriminates against out-of-state energy sources, violating the U.S. commerce clause. Part of AB32, the LCFS aims to reduce the carbon content of gasoline 10% by 2020, and replace as much as 20% of total gasoline used annually with renewable fuels. The judge asserted that other policies such as a carbon tax should be considered as an alternative to the LCFS. If CARB's appeal on the LCFS ruling is unsuccessful, market experts have speculated that it could result in a tighter cap in the cap-and-trade scheme. (Summary based on Point Carbon article [here](#) (subscription required).)
3. The California Public Utilities Commission (PUC) is expected to issue a decision opening participation in the state's carbon market to three large investor-owned utilities (IOUs): Pacific Gas & Electric (PG&E), Southern California Edison, and San Diego Gas & Electric (SDG&E). The decision could come as early as January, though the board may not vote on the GHG procurement plans for the IOUs until February or March. The plans outline parameters for buying offsets and allowances in the state's cap-and-trade system. As soon as the plans are approved, the IOUs will be able to start trading in advance of the official market start in 2013. (Summary based on [Carbon Market North America, Vol. 6, Issue 49, December 23, 2011.](#))

RGGI:

1. On December 20, RGGI released a timetable for the 2012 program review. This schedule, along with other materials and information concerning the review are available on the RGGI Program Review [website](#).

American Carbon Registry:

1. No recent offset related developments.

Alberta Offset Program:

1. The Government of Alberta has released the [Draft Quantification Protocol for the Capture of CO2 and Permanent Storage in Deep Saline Aquifers](#) for a 30-day public comment period. Directions for submitting comments (by January 12) are available [here](#). (Summary based on Alberta Offset Program mailing list email received December 12.)
2. The Government of Alberta released memos clarifying: deadlines for claiming historic offset credits in the Alberta Offset System, project grid electricity factors, and data testing requirements for third party verification. (Summary based on Alberta Offset Program mailing list emails received December 21 and 23.)

Climate Action Reserve:

1. On December 14, the Reserve Board adopted the [Rice Cultivation Project Protocol Version 1.0](#). The protocol provides guidance on quantifying, monitoring, and verifying GHG emission reductions from changes in rice cultivation practice.
2. On December 15, CAR released [errata and clarifications](#) for [U.S. ODS Project Protocol Version 1.0](#) and [errata and clarifications](#) for [Article 5 ODS Project Protocol Version 1.0](#).

VCS Program:

1. On December 22, VCS approved a new methodology, [VM0017 Adoption of Sustainable Agricultural Land Management](#), developed by the World Bank's BioCarbon Fund and assessed by DNV and SCS. Project activities could include use of cover crops, improved tillage practices, and agroforestry. While the methodology can be used in a variety of agro-ecological zones, an applicability requirement is that the soil organic carbon would remain constant or decline over time without the project intervention.
2. The following methodologies are currently open for public comment through January 12: [Protocol for the Creation of Forest Carbon Offsets in British Columbia](#); [Baseline and Monitoring Methodology for the Rewetting of Drained Peatlands used for Peat Extraction, Forestry or Agriculture](#); and [Rewetting of Drained Tropical Peatlands in Southeast Asia](#).

WCI:

1. On December 14, Quebec announced its formal adoption of regulations to launch a cap-and-trade scheme in 2013, allowing companies in the Canadian province and California to trade allowances under WCI. Quebec became the second WCI member, after California, to confirm participation in the scheme when it begins in 2013. Quebec's environment department has noted that regulations concerning the use of offsets in the cap-and-trade scheme will not be published until next year. (Summary based on [Carbon Market North America, Vol. 6, Issue 48, December 16, 2011](#).) Further details are available on the [WCI](#) and [Ministère](#) websites.
2. Ontario may struggle to meet a 2013 deadline to participate in WCI's regional trading scheme, as much preparation work still needs to be completed before the province can join. If the province is not able to meet the start date, it could be possible to join the program later – through partial participation in 2014, or in 2015 when the program is expanded to include transportation fuels. Participation by British Columbia also remains uncertain. (Summary based on Point Carbon article [here](#) (subscription required).)
3. On December 21, WCI released updated [Final Essential Requirements for Mandatory Reporting: 2011 Amendments for Harmonization of Reporting in Canadian Jurisdictions](#). The updated methods should be used by Canadian jurisdictions for emissions in calendar year 2012 (reported in 2013).
4. On December 19, WCI Partner jurisdictions released the [Final Offset Protocol Review and Recommendation Process](#). The document includes recommendations for how candidate offset protocols will be identified, evaluated, as well as the processes for public consultation and recommendation by WCI for adoption by WCI Partner jurisdictions.

Recent Publications:

1. A [report](#) commissioned by the EU was released this month discussing the environmental integrity of the CDM. The report assesses strengths and shortcomings of the CDM, and considers options for reform.
2. EPRI published a new research [report](#), "Designing a Large-Scale Federal Offset Program in the United States: Policy Choices and Lessons Learned from the CDM."

Upcoming Events:

1. No upcoming offsets related events.