

Tracking Offset Developments: June 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. Debates over the future of the Kyoto protocol in Bonn have stalled proposals to for reform in future Kyoto carbon markets. Some developing countries assert that unless developed countries take on legally binding targets under a second phase of Kyoto, they should not be able to access the CDM or JI. (Summary based on: <http://www.pointcarbon.com/1.1549556> (subscription required).)
2. A Canadian climate negotiator announced that the government will meet its emission reduction target (17% reduction by 2020, compared with 2005) solely through domestic actions, and without the use of any international offsets. A Swiss negotiator also announced that Switzerland would meet its pledge (at least 20% cut by 2020, below 1990 levels) domestically. However, if Switzerland decides to take on a more ambitious goal of 30%, then the country would use a limited amount of offsets (up to one quarter of the additional emissions reduction). Summary here: http://www.pointcarbon.com/polopoly_fs/1.1548723!CMNA20110610.pdf and <http://www.pointcarbon.com/1.1548297> (subscription required).
3. Later this month, the UK government will urge members of parliament to support retaining the option of using 55 million international offsets to assist the country in meeting its non-ETS emissions goals for 2013-2017. (Summary based on: <http://www.pointcarbon.com/news/1.1549866> (subscription required).)
4. Following a January vote to ban industrial gas offsets for use in the EU-ETS market's third phase, Denmark has been urging other nations to voluntarily extend this ban to non-ETS sectors (e.g., agriculture, housing, and transport). Over half of EU nations – Germany, UK, France, Austria, Belgium, Estonia, Greece, Slovenia, Sweden, Czech Republic, Slovakia, Luxembourg, Malta, Latvia, and Bulgaria – have joined Denmark's initiative. Italy and Spain, who have used tens of millions of industrial gas offsets in the EU-ETS, have not signed on. (Summary based on: <http://www.pointcarbon.com/news/1.1551824> (subscription required).)
5. The World Bank's Partnership for Market Readiness (PMR) has awarded grants to eight countries to further the development of market-based mechanisms (e.g., emission trading schemes, international crediting mechanisms) by implementing technical steps such as data collection and auditing systems. The recipients are Chile, China, Colombia, Costa Rica, Indonesia, Mexico, Thailand, and Turkey. Colombia, who plans to focus on transport emissions, does not have plans to start an emissions trading scheme, but rather plans to explore abatement options beyond generating offsets for the CDM. Morocco and Ukraine are also planning on applying for grants. Ukraine, which would be the PMR first recipient with a Kyoto

target, has considered establishing a regional carbon market, involving Russia, Kazakhstan, and Belarus. (Summary based on: <http://www.pointcarbon.com/1.1546299> and <http://www.pointcarbon.com/1.1546074> (subscription required).)

6. With the assistance of the World Bank (per above), Thailand is developing a voluntary, domestic emissions trading scheme that is expected to begin next year. Thailand is also working on establishing a domestic offsets scheme as an alternative to the CDM. The government is developing methodologies for offset projects in three areas: energy and transport, waste management, and urban forests. (Summary based on: <http://www.pointcarbon.com/news/1.1545528> (subscription required).)
7. The Japanese government is discussing a climate bill, which includes laying the foundation for a GHG emissions trading scheme. No details or start date are noted, though legislation containing details would need to be drafted within one year of the climate law coming into effect. Last December, the government decided to delay the introduction of the emissions trading scheme until after 2013, facing resistance from business lobbies. (Summary based on: <http://www.pointcarbon.com/1.1546136> (subscription required).)
8. Japan and Indonesia have agreed to cooperate on a bilateral offset scheme, bypassing the CDM. Rules, including monitoring and verification of emissions reductions, would be outlined by the two countries. (Summary based on: <http://www.pointcarbon.com/news/1.1550900> (subscription required).)
9. On June 14, Shanghai's municipal government announced it will measure energy use and emissions from large industry in preparation for a pilot emissions trading scheme. A target for emissions reduction will be established after monitoring energy use between 2011-2015. (Summary based on: <http://www.pointcarbon.com/1.1549370> (subscription required).)
10. Both the ruling and opposition parties in South Korea have agreed to approve a carbon emissions trading scheme bill in a parliamentary review expected later this year. Following strong opposition from industry, the government increased free carbon allowances and softened penalties for non-compliance. The government hopes to pass the bill before September in order to start the scheme in 2015. Further info available here: http://www.pointcarbon.com/polopoly_fs/1.1550652!CMNA20110617.pdf and <http://www.reuters.com/article/2011/06/15/us-energy-summit-korea-idUSTRE75E18V20110615>.

CDM/JI Developments:

1. The 61st meeting of the Executive Board of the Clean Development Mechanism (CDM) convened May 30-June 3 in Bonn, Germany. The summary report is available here: http://cdm.unfccc.int/Reference/EB_Summary/index.html.
2. The 25th meeting of the Joint Implementation Supervisory Committee (JISC) took place June 21-22 in Bonn, Germany. The meeting report is available here: http://ji.unfccc.int/Sup_Committee/Meetings/025/Reports/Report.pdf.
3. Carbon market lobby groups have asked the CDM Executive Board to reconsider plans to change rules on the frequency of CER issuance requests by small CDM schemes, claiming flexibility in choosing monitoring periods is key and a once per year limit would discriminate against small

projects and those in LDCs. The limit would create challenges in synchronizing CDM credits in the secondary market or with EU-ETS deadlines, and for project owners to optimize carbon revenue streams. At the 61st meeting of the Executive Board of the CDM, the Board decided not to adopt the proposal limiting offset credit issuance to once a year. (Summary based on CDM & JI Monitor; Vol. 08, Issue 10; 1 June 2011 & Issue 11; 15 June 2011.)

4. The CDM Executive Board (EB) made some changes to streamline the CDM at their 61st meeting. For instance, the EB made it easier for project participants in countries with limited financial data to demonstrate a project is additional by allowing the use of default factors in financial assessments of additionality. The Board also limited the liability of auditors, or designated operational entities (DOEs) in PoAs, which had been deterring involvement of many firms. The EB, however, deferred a decision on changing the HFC 23 project methodology. (Summary based on CDM & JI Monitor; Vol. 08, Issue 11; 15 June 2011 and http://cdm.unfccc.int/CDMNews/issues/issues/I_VECTQ86BJP5GNYAMZJ0ML5QKD00M2N/vie wnewsitem.html.)
5. In light of the post-2012 CDM shift, the Gold Standard has received funding from Germany's environment ministry to develop top-down methodologies for small projects and building institutional capacity for designated national authorities (DNAs) in host countries, with the aim of boosting investment in LDCs. (Summary based on CDM & JI Monitor; Vol. 08, Issue 10; 1 June 2011.)

North American (and Voluntary) Offset Program Developments:

1. The U.S. Department of Agriculture (USDA) will invest \$7.4 million (which will be matched by private investment) in pilot agricultural carbon offset projects. The nine projects in 24 states will generate credits for voluntary, state, and regional compliance markets, while spurring private investment in the agriculture sector. The investment will support the design of offset project methodologies and accounting methods for the California market and voluntary standards (e.g., ACR and VCS). Recipients include the Environmental Defense Fund (focusing on rice production), Unison Resource Company (focusing on beef and dairy industries), and the Confederated Tribes of the Colville Indian Reservation in Washington state (focusing on forest carbon and overcoming historic barriers to entering carbon markets). More info: http://www.pointcarbon.com/polopoly_fs/1.1548723!CMNA20110610.pdf and http://www.nrcs.usda.gov/news/releases/2011/cig_ghg_6.8.11.html.

CARB/California:

1. On June 29, CARB Chairwoman Mary Nichols testified before the state legislature and announced plans to delay the start of California's cap-and-trade system by one year. Quarterly auctions of emissions allowances will be delayed from February 2012 to the second half of the year. Credit trading will begin at the end of next year, covering emissions reductions obligations for 2013 and beyond. The first compliance period, originally intended to cover 2012-2014, will be shorted to two years. The state is not expected to forgo any emissions reductions. The extra year will provide the opportunity to road test the market and avoid any possible manipulation.

CARB plans to release draft regulations concerning allowance distribution and offset protocols within two weeks. More info here: <http://www.nytimes.com/cwire/2011/06/30/30climatewire-california-delays-cap-and-trade-auctions-cit-96440.html>.

2. California's first district court of appeal suspended a prior May decision by a superior court judge for CARB to "take no action" to implement a cap-and-trade system. The plaintiffs in the case (an environmental justice group) have until June 20 to submit their objections. Under this temporary stay, CARB may continue working on the design of the cap-and-trade program. In response to an order by a San Francisco superior court judge to provide an economic analysis of alternatives to cap-and-trade, on June 13, CARB released a report which reaffirmed their assertion that cap-and-trade is the best option for California to cut 22 million tCO₂ by 2020. See summaries here: http://www.pointcarbon.com/polopoly_fs/1.1548723!CMNA20110610.pdf, http://www.pointcarbon.com/polopoly_fs/1.1550652!CMNA20110617.pdf, and <http://www.pointcarbon.com/1.1549186> (subscription required).
3. CARB is considering discounting early action offset credits from CAR agricultural methane offset projects by 13%. It has been suggested that an issue related to CO₂ combustion is the reason for discounting the CAR credits. The agricultural methane destruction projects are one of four CAR project types expected to count as early action offsets credits toward compliance under California's cap-and-trade system. Summary here: http://www.pointcarbon.com/polopoly_fs/1.1548723!CMNA20110610.pdf.

RGGI:

1. Though New Jersey will pull out of RGGI by the end of the year, remaining states announced that they will recognize New Jersey's 2009-2011 vintage allowances in circulation and those sold at the June 8 auction. New Jersey will also participate in the last two auctions of 2011 (on September 7 and December 7), offering only allowances for the current control period. Summary here: http://www.pointcarbon.com/polopoly_fs/1.1545984!CMNA20110603.pdf.
2. On June 13, New Jersey lawmakers introduced three bills challenging Governor Christie's move to pull the state out of RGGI. The bills would make New Jersey's participation in RGGI legally binding, declare Governor Christie's announcement "inconsistent with existing law," and create a constitutional amendment preventing the governor from using RGGI auction proceeds or the NJ clean energy fund for uses besides clean energy or energy efficiency programs. Summary here: http://www.pointcarbon.com/polopoly_fs/1.1550652!CMNA20110617.pdf.
3. New Hampshire's governor has said that he will veto a measure passed in the state legislature that would remove the state from RGGI. This amendment to a shoreline protection bill passed the state house and senate this week, but without a veto-proof majority in the senate. (Summary based on: <http://www.pointcarbon.com/1.1548429> (subscription required).)

American Carbon Registry:

1. ACR announced an open public comment period (ending July 8) for the methodology, Voluntary Emission Reductions in Rice Management Systems, developed by Environmental Defense Fund (EDF), in partnership with the California Rice Commission (CRC), Applied Geosolutions, LLC, and Terra Global Capital LLC. The first offset methodology of its kind, its development was

influenced by CARB's interest in adopting compliance offset protocols benefiting California's agriculture sector under the state's upcoming cap-and-trade program. More information here: <http://www.americancarbonregistry.org/ACR%20Initiates%20Approval%20of%20Methodology%20for%20Reducing%20Rice%20Sector%20Emissions%20FINAL.pdf>.

Alberta Offset Program:

1. No recent offset related developments.

Climate Action Reserve:

1. No recent offset related developments.

VCS Program:

1. On June 7, VCS posted revisions to the AFOLU requirements, which are open for public consultation through August 6. Revisions are related to requirements for a new project type (Avoided Conversion of Grasslands and Shrublands (ACoGS)) and leakage. Additional information is available here in the [public consultation document](#).
2. On June 16, VCS approved a new methodology, [VM0014 Interception and destruction of fugitive methane from Coal Bed Methane \(CBM\) seeps](#), developed by the Southern Ute Indian Tribe Growth Fund and WSP Environment and Energy.
3. On June 21, the VCS Association issued a call for peer reviewers of draft guidelines for developing standardized approaches to determining additionality and quantifying greenhouse gas emissions reductions and removals. The guidelines establish rules and requirements, such as performance benchmarks and positive lists. Recommendations and peer reviewer applications should be submitted by July 1 and July 8, respectively. More info is available here: <http://www.v-c-s.org/news-events/news/call-peer-reviewers-draft-guidelines-standardized-approaches>.

WCI:

1. On June 7, the WCI Offsets Committee released draft recommendations for the requirements and process of offset project review and approval, and credit creation for the regional emissions trading program. The Committee held a stakeholder conference call on June 15. Written comments can be submitted by July 8. Details on the call and process for submitting comments are accessible here: <http://www.westernclimateinitiative.org/news-and-updates/131-wci-offset-system-process-draft-recommendations->.
2. WCI Partner jurisdictions have drafted common business requirements for a compliance instrument tracking system. Jurisdiction-specific requirements may be revisited at a later time. The draft document is available for download here: <http://www.westernclimateinitiative.org/news-and-updates/132-draft-business-requirements-for-a-compliance-instrument-tracking-system>.

Recent Publications:

1. Published by Ecosystem Marketplace (an initiative of Forest Trends) & Bloomberg New Energy Finance. "Back to the Future: State of the Voluntary Carbon Markets 2011." This fifth annual

“State of the Voluntary Carbon Markets” report provides a comprehensive analysis of trading volumes, credit prices, project types, locations, and motivations of buyers. Full report and executive summary available here:

http://www.ecosystemmarketplace.com/pages/dynamic/resources.library.page.php?page_id=8351§ion=our_publications&eod=1.

2. Published by Climate Focus, with the support of the German Federal Ministry for the Environment, Nature Conservation and Nuclear Safety (BMU), CDC Climat, the Inter-American Development Bank (IADB), and UNEP Risoe. “The Handbook for Programmes of Activities: Practical Guidance to Successful Implementation.” The handbook provides guidance for programmatic approaches in the CDM, JI, and voluntary carbon standards. Report available for download here:
http://www.climatefocus.com/documents/the_handbook_for_programmes_of_activities_practical_guidance_to_successful_implementation.
3. Published by Point Carbon. “Carbon 2011.” The annual report presents results of the sixth annual Carbon Market Survey, and notes trends in the global carbon market in 2011. Report is now available for free download here:
<http://www.pointcarbon.com/research/promo/research/>.
4. Published by the World Bank. “State and Trends of the Carbon Market 2011.” Released during the Carbon Expo that took place in Barcelona (June 1-3), this 2011 edition indicates a slight decline in carbon markets compared with 2009, citing recessions, and post-2012 and cap-and-trade scheme uncertainty, as drivers. The report also notes the EU ETS’ dominant role in sustaining demand in the carbon market. The report is available here:
http://siteresources.worldbank.org/INTCARBONFINANCE/Resources/StateAndTrend_LowRes.pdf.
5. Published by the Electric Power Research Institute (EPRI). “Key Institutional Design Considerations and Resources Required to Develop a Federal Greenhouse Gas Offsets Program in the United States.” Identifying lessons learned from the CDM, the report assesses governmental institutional requirements and resources that would be required in developing a large-scale domestic GHG emissions offset program in the U.S. Two policy scenarios – a legislative scenario and Clean Air Act regulatory scenario – are explored. Report available here:
http://my.epri.com/portal/server.pt?Abstract_id=00000000001023122.