

Tracking Offset Developments: May 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.

North American (and Voluntary) Offset Program Developments:

American Carbon Registry:

1. ACR announced the open public comment period (ending on June 17) for the methodology, Quantifying Nitrous Oxide (N₂O) Emissions Reductions in Agricultural Crops through Nitrogen (N) Fertilizer Rate Reduction. Information here: <http://americancarbonregistry.org/carbon-accounting/methodology-for-n2o-emission-reductions-through-fertilizer-rate-reduction>.
2. ACR announced an open public comment period (which ended May 13) for the Improved Forest Management (IFM) Methodology for Non-Federal U.S. Forestlands. Information here: <http://www.americancarbonregistry.org/carbon-accounting/ifm-methodology-for-non-federal-us-forestlands>.

Alberta Offset Program:

1. A Public Review Period for the In Block Chipping Protocol ended on May 2. More info here: <http://carbonoffsetsolutions.climatechangecentral.com/offset-protocols/alberta-protocol-review-process/3rd-round-protocol-public-review-0>.

Climate Action Reserve:

1. A public comment period is open for the [draft Organic Waste Digestion Project Protocol Version 2.0](#) and the draft [U.S. Landfill Project Protocol Version 4.0](#). Comments for both protocols are due by June 3.
2. CAR released an RFP and RFQ for assistance in adapting protocols for use in Canada. Livestock, Organic Waste Digestion and Organic Waste Composting Project Protocols will be adapted, and the scope will be expanded for two protocols under development (Cropland Management Project Protocol and Nutrient Management Project Protocol). More info here: <http://www.climateactionreserve.org/how/protocols/future-protocol-development/>.

RGGI:

1. On May 26, Governor Chris Christie announced that New Jersey will withdraw from RGGI by the end of the year, stating the program is not effective and allowance prices are too low. New Jersey will participate in the next allowance auction on June 8. New Jersey's withdrawal is not expected to significantly impact the market, as the cap will be adjusted. Summary here: http://www.pointcarbon.com/polopoly_fs/1.1543777!CMNA20110527.pdf.

2. The New Hampshire State Senate voted to continue participation in RGGI, following a bill that passed in the House earlier this year which sought to repeal NH's involvement in RGGI. The Senate also passed an amendment describing how money generated in auctions will be spent, and allowing New Hampshire to pull out of RGGI if another New England state does. Other states (e.g., Maine, Delaware) have debated withdrawing from RGGI (and New Jersey has just done so). Summary here:
http://www.pointcarbon.com/polopoly_fs/1.1536670!CMNA2011050613.pdf.
3. Seven RGGI states sent a letter to the EPA, asking that their participation in RGGI count toward meeting upcoming GHG regulations under the Clean Air Act. The states recommend that the EPA take advantage of carbon markets, and move from a facility-by-facility basis to a fleet average. These power plant regulations – the New Sources Performance Standards (NSPS) – are expected to be released on July 26, and finalized on May 26, 2012. (Summary based on:
<http://www.pointcarbon.com/news/1.1535876> (subscription required)).

VCS Program:

1. On April 27, 2011, VCS approved a new methodology, [VM0013 Calculating Emission Reductions from Jet Engine Washing](#), developed by Pratt & Whitney.
2. Two AFOLU methodologies, developed by Terra Global Capital, LLC, are being assessed under the VCS methodology approval process, and have been posted to the VCS website for a 30-day public comment period (May 12 - June 10): [Baseline and Monitoring Methodology for Avoiding Planned Deforestation of Undrained Peat Swamp Forests](#) and [Calculating Emission Reductions in Rice Management Systems](#).

WCI:

1. No recent offset related developments.

CARB/California:

1. In a letter to the Governor, the Sierra Club expressed concerns over California's proposed carbon market's overreliance on carbon offsets. The group is particularly concerned with the two (of four) offset protocols which revolve around forest management. CAR, who developed the protocols, defended their integrity. The Governor has yet to weigh in. See summary here:
http://www.pointcarbon.com/polopoly_fs/1.1536670!CMNA2011050613.pdf.
2. Offset developer Blue Source has registered a North Carolina forestry project, which is the first project outside California that can produce credits for the upcoming CA carbon market. The project was developed according to CAR and ARB standards, and the developer suggests this shows the viability of including forest carbon in the CA scheme. (Summary based on:
<http://www.pointcarbon.com/news/1.1537090> (subscription required).)
3. Two bills related to offsets in California's carbon market have passed the senate environmental quality committee in California, and now go to the chamber's appropriations committee. One bill seeks to require public reviews of all offset protocols, ensure that for-profit businesses do not decide the offset quality, and require periodic audits of verifiers and offset registries. A second bill would allow covered entities to receive offsets credits in return for investment in state-sponsored renewable energy programs, though this bill has been questioned on the basis

of additionality. See summary here:

http://www.pointcarbon.com/polopoly_fs/1.1534543!CMNA20110506.pdf.

4. On May 2, a coalition of five major carbon market lobby groups (which includes the International Emissions Trading Association (IETA) and the Carbon Markets & Investors Association) sent a letter to CARB asking them to alter the “buyer liability” approach in its cap-and-trade regulations in order to protect buyers from the risk of purchasing dubious offsets. Instead, the group proposes creating a “buffer pool” of credits. Summary available here: http://www.pointcarbon.com/polopoly_fs/1.1540116!CMNA20110520.pdf.
5. The California power market is planning for a future carbon price, despite uncertainty over whether the California carbon market will begin on time. Power traders have built a “carbon premium” into their forward contracts, some of which is due to an expected carbon price. See summary here: http://www.pointcarbon.com/polopoly_fs/1.1540116!CMNA20110520.pdf.
6. Despite a [recent ruling](#) that regulators must put carbon market plans on hold until alternatives are formally examined, California officials are continuing to design the cap-and-trade scheme. The case will next go to the 1st District Court of Appeal, and it could take up to a year and a half to be resolved. ARB must submit its final regulations by October 28 for the market to start on schedule. ARB has selected SRA International to create its carbon market registry. See http://www.pointcarbon.com/polopoly_fs/1.1543777!CMNA20110527.pdf.

CDM/JI Developments:

1. A UN proposal to revise methodologies for HFC 23 destruction could reduce CER supply by up to 290 million from 2013-2020. If adopted, the proposal would impact future crediting periods (starting after 2013). This proposal would not likely impact the EU ETS, which is banning HFC 23 and adipic acid N₂O projects (See: Other international developments, below). (Summary based on CDM & JI Monitor; Vol. 08, Issue 9; 18 May 2011.)
2. UNDP has suggested that the International Bureau of the Permanent Court of Arbitration (PCA) in the Hague, Netherlands, govern a new CDM appeal system, where project developers challenge CDM Executive Board decisions not to register projects. Proponents argue that taking advantage of an already established structure is faster than building a new appeals body from scratch. However, some concerns, such as lack of specialist experience, have been voiced. Proposals by the UNFCCC and parties to the Kyoto Protocol will be discussed at the upcoming UN climate talks in Bonn, running from June 6-16. (Summary based on CDM & JI Monitor; Vol. 08, Issue 9; 18 May 2011.)
3. The Russian Ministry for Economic Development is drafting new JI rules to simplify bureaucratic procedures and quicken ERU issuance. One key revision proposed is giving more control of contracts to Sberbank, the body that overlooks the approval process. (Summary based on CDM & JI Monitor; Vol. 08, Issue 9; 18 May 2011.)
4. See Publications concerning CDM, below.

Other international developments:

1. On May 16, the European Commission’s draft regulation banning use of credits from industrial gas projects (HFC and N₂O adipic acid) in the EU ETS post-2012 was formally approved.

However, some concern does remain in that the ban does not cover EU Member States' national targets in non-traded sectors (e.g., housing, agriculture, transport). In response, Denmark has voluntarily extended the ban to their national targets, and is expected to ask other Member States to sign a declaration at the Environment Council in June. A number of Member States have already indicated they will do the same. Article here:

<http://www.sandbag.org.uk/blog/2011/may/16/environmental-groups-call-extension-industrial-gas/>. CERs banned from the EU ETS starting May 1, 2013 accounted for nearly 80% of offsets surrendered for compliance last year (CDM & JI Monitor; Vol. 08, Issue 9; 18 May 2011).

2. On May 24, South Korea launched a domestic offset mechanism which will allow large firms to fund clean technology deployment at smaller firms and use the resulting credits to meet goals under Seoul's Target Management Scheme (TMS), due to start in 2012. These green credits may also be used as early action credits once a mandatory, economy-wide emissions trading scheme is established in 2015. Article here: http://www.mhcarbon.com/news_detail.php?news_id=33.
3. Australia proposed granting carbon credits for improving fire management under the Government's Carbon Farming Initiative (CFI). The methodology involves using controlled fire management across savannas in fire prone northern Australia to reduce the area burnt and/or shift burning from the late to early dry season, which would reduce CH₄ and N₂O emissions per unit area. The methodology incorporates traditional Indigenous ecological knowledge. CFI methodologies are assessed by the Domestic Offsets Integrity Committee. Public comments are invited on the [methodology](#) through June 30. Article here: <http://www.climatechange.gov.au/en/minister/mark-dreyfus/2011/media-release/May/mr20110525.aspx>.
4. Japan's plans for bilateral carbon offset trading may be delayed and scaled back following the earthquake and tsunami. The scheme's budget could be cut in half, as the government may divert money to rebuilding infrastructure. The bilateral scheme has not gained much international momentum, partially due to concerns in guaranteeing the environmental integrity of issued credits. (Summary based on CDM & JI Monitor; Vol. 08, Issue 9; 18 May 2011.)
5. Starting on June 30, the UK will cease funding its quality assurance standard for carbon offsets. The Quality Assurance Scheme (QAS), that encouraged the use of UN-backed carbon credits, had been ignored by most UK companies that offset their emissions. Voluntary offset providers are considering this a victory, stating that voluntary systems are at least as reputable as the UN markets. (Summary based on Carbon Market Europe; Vol. 10, Issue 20; 27 May 2011.)
6. China's Hunan province has approached the federal government with a plan to launch an energy saving trading scheme. The proposal is to cap energy consumption and create a trading scheme with energy saving credits covering 80% of the Hunan province's economy. The scheme would include a project-based offset mechanism. No start date has been set. (Summary based on: <http://www.pointcarbon.com/news/1.1537269> (subscription required).)

Other Developments:

1. The International Climate Initiative (supported by the German Federal Ministry for the Environment, Nature Conservation and Nuclear Safety (BMU)) has chosen the Gold Standard to develop tools to lower entry barriers and allow for the scale-up of carbon markets in

underrepresented regions, such as least developed countries and small island states. As part of this three-year program, Gold Standard will develop top-down methodologies for suppressed demand and micro-scale projects and provide more refined guidelines for the Programme of Activities (PoAs). Article here: <http://www.cdmgoldstandard.org/Detail-Page.109+M5485f354fb1.0.html>.

2. The Center for Resource Solutions is holding an open stakeholder 60-day comment period (ending May 25) for possible revisions to the Green-e Climate Standard, which establishes the process and principles in determining which GHG Project Certification Programs and GHG Emission Allowance Programs will be included as eligible sources of GHG emissions reductions for Green-e Climate Certified offset products. Green-e Climate is a certification and consumer protection program for offsets sold to consumers on the retail, voluntary market. Instructions on how to comment are found here: <http://www.resource-solutions.org/pressreleases/2011/032511.html>.

Recent Publications:

1. Prepared by Søren E. Lütken of the UNEP/Risoe Centre; published by UNEP under its Capacity Development for the Clean Development Mechanism (CD4CDM) project. "Indexing CDM Distribution: Leveling the Playing Field." The paper addresses concerns of equitable geographical distribution of CDM projects, notes the role of the Nairobi Framework, and concludes that when relative figures are used, distribution is becoming more equal, even in Least Developed Countries. Available here: <http://www.cd4cdm.org/Publications/IndexingCDMdistribution.pdf>.
2. Prepared by Stefan Bakker, Tom Mikunda, and Rodrigo Rivera Tinoco of ECN. "Potential impacts of CCS on the CDM." This study includes a marginal abatement cost curve for CCS in developing nations, and demonstrates that the inclusion of CCS in the CDM will likely have only a limited impact on the CER market up to 2020. Available here: <http://www.co2-cato.nl/cato-2/publications/publications/potential-impacts-of-ccs-on-the-cdm>.