

# Tracking Offset Developments: November 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. Japan:** The design of the Bilateral Offset Credit Mechanism (BOCM) proposed by Japan, will be informed by input from feasibility studies to be completed by March 2012. These feasibility cases studies will focus on transportation, waste management, biomass utilization, renewable energy, energy efficiency/savings, REDD+ and other project types in Vietnam, Thailand, China, Angola, Brazil, Cambodia, Indonesia, South Africa, Mexico, India, Mongolia, Colombia, Sri Lanka, Laos and Malaysia. The Japanese government has stated it will allocate approximately \$32 million in the coming year to subsidize additional feasibility studies in 12 African countries (Democratic Republic of Congo, Egypt, Ethiopia, Ghana, Kenya, Morocco, Mozambique, Nigeria, Senegal, Tanzania, Uganda, and Zambia). (Summary based on Point Carbon article [here](#) (subscription required) and further information can be found [here](#).) Over 300 offset projects have applied to generate offsets under Tokyo's carbon trading scheme, with more applications expected. Appears that under the Tokyo-ETS offset projects constitute energy-efficiency measures undertaken by facilities too small to be regulated by the ETS or facilities outside the geographic boundary of the Tokyo ETS, RECs from solar (heat and light), wind geothermal, hydropower and biomass also qualify as offsets (more information [here](#)). While the individual projects are small (on average, yielding less than 150 tonnes of CO<sub>2</sub> emissions reductions annually), they would collectively represent a significant share of the total emission reductions that covered entities are required to make within five years. Tokyo implemented Japan's first municipal emissions trading scheme, though similar schemes have subsequently been developed in Kyoto and Saitama. (Summary based on Point Carbon article [here](#) (subscription required).)
- 2. Spain:** On November 11, Spain approved a \$4.7 million contribution to the World Bank's BioCarbon Fund, which brings its total contribution to over \$10 million in the second tranche of the fund. Spain's participation in the fund is expected to provide the government with U.N.-backed credits from forestry projects and emissions reduction credits from REDD (which are excluded from the CDM). Spain's contribution now totals \$23.6 million (of a total capital of \$94.6 million), making the country one of the largest investors in the fund. A third tranche of the fund is expected to be opened to investors in the coming year. (Summary based on [Carbon Market Europe, Vol. 10, Issue 45, 18 November 2011.](#))
- 3. Spain:** The Partido Popular, the political party that came to power in Spain's recent elections, has criticized the outgoing administration's climate policy, particularly a reliance on U.N.-backed offsets by the Spanish government and companies. While the Partido Popular has not announced plans to exclude these offsets in the future, they have asserted support for domestic

projects in the transport, waste, agricultural, residential, and forestry sectors to meet emission reduction targets. (Summary based on [Carbon Market Europe, Vol. 10, Issue 46, 25 November 2011](#) (subscription required).)

4. **Norway:** In an effort to cut costs, Norway's finance ministry has urged the government to repeal the 2008 legislation limiting the number of offsets the country may use in meeting its 2020 emissions reduction goal. The current agreement requires two-thirds of the 30% cut in emissions from 1990 levels to be made domestically. (Summary based on Point Carbon article [here](#) (subscription required).)
5. **World Bank:** The World Bank has described visions of a networked market comprised of national and sub-national schemes as a bridge to a global carbon market, noting that since a global market will not likely emerge for another decade, such a networked approach could be the next best strategy. The World Bank is involved in a number of initiatives aiming to improve the supply side of carbon markets. The Bank plans to launch a \$130 million Carbon Initiative for Development (CI-Dev) fund in Durban, which will focus on channeling CDM funds to LDCs. The World Bank also plans to advocate for more programmatic approaches to offset markets, in contrast with project-based approaches. In addition, the Bank anticipates that their Partnership for Market Readiness (PMR) will distribute grants to 15 countries by the year's end. (Summary based on Point Carbon article [here](#) (subscription required).)

### CDM/JI Developments:

1. In order to inform a year-long policy dialogue concerning the Clean Development Mechanism (CDM), the CDM Executive Board (EB) is seeking public input on topics including external impacts on the CDM, anticipated challenges, and future opportunities for its use and development. This public input will be shared with the panel conducting the dialogue, and will be considered by the EB at its 66<sup>th</sup> meeting in early 2012. Submissions can be made [here](#) from October 27, 2011 – January 16, 2012.
2. During its sixty-fifth meeting held from November 21-25 in Durban, the CDM Executive Board agreed to put the methodology ACM0013 on hold, effective immediately. The EB noted shortcomings in the methodology for efficient coal-fired power plants, citing particular concern over the baseline methodology procedure which could lead to overestimates of the GHG emissions reductions claimed by projects. The six projects already registered are not affected. The EB also charged the Meth Panel with finalizing a draft revision of the methodology for future consideration. The Meth Panel had documented concerns with ACM0013 in a July report, and, at the request of the EB, conducted a more detailed analysis of the methodology which it recently released in its [fifty-third meeting report](#). (Summary based on Point Carbon article [here](#) and [CDM & JI Monitor, Vol. 8, Issue 22, 16 November 2011](#) (subscription required), and [CDM EB sixty-fifth meeting report](#).)
3. The CDM EB also moved to approve a revised HFC-23 methodology, decreasing the number of credits that can be awarded to new projects by one-third. The decision comes a year after originally suspending the methodology. The EB ruled that the maximum emissions reductions that can be claimed is one tonne HFC-23 for every 100 tonnes HCFC-22 (a 1% ratio). This project type has proven controversial due to claims that more HCFC-22 has been produced solely to

create greater amounts of HFC-23 that can be destroyed and awarded credits. However, the revision is expected to have limited impact since the revision will not apply retroactively to already registered projects during their first crediting period. (Summary based on Point Carbon article [here](#) and [Carbon Market Europe, Vol. 10, Issue 46, 25 November 2011](#) (subscription required), as well as the [CDM EB sixty-fifth meeting report](#).)

4. The CDM EB has adopted standards that clarify rules for third-party auditors and project participants, with the aim of speeding up processes and yielding higher quality submissions. The EB progressed on guidelines for sector-specific standardized baselines, simplifying measurement requirements in LDCs where data may be lacking. CDM host countries can now propose renewable energy technologies that will automatically be considered additional. The EB also approved a standard on measurement of clean energy program emissions reductions through sampling. (Summary based on Point Carbon article [here](#) (subscription required).)
5. Concerns have been expressed that delays in awarding CERs to programmatic CDM projects could create unease amongst investors. Programmes of Activities (PoAs) aim to reduce transaction costs for smaller activities by grouping multiple activities under the same project design document and approval and issuance processes. CDM EB has made progress in streamlining the PoA registration process, and is being careful to avoid any weaknesses in the PoA process. Attention has been drawn to PoAs recently as a potential loophole in EU rules removing eligibility of CDM projects in non-LDCs that are registered after 2012. Currently, as long as a PoA is registered prior to 2012, the project can be scaled up (additional activities added after 2012) and still be eligible for the EU-ETS, regardless of location. (Summary based on [CDM & JI Monitor, Vol. 8, Issue 21, 2 November 2011](#) (subscription required).)
6. The Global Alliance for Incinerator Alternatives (GAIA) has called for CDM landfill gas offsets to be banned from the EU-ETS, citing the perverse incentive created to landfill more waste. These projects receive credits by burning methane, converting it to CO<sub>2</sub>, which is less potent. The group asserts that awarding these credits incentivizes increasing landfilling while discouraging recycling and composting. (Summary based on Point Carbon article [here](#).)
7. Two carbon exchanges in Europe have banned trade of offsets generated in countries subject to economic sanctions by the U.S. Currently, the ban applies to CERs from Cuban projects, but would be expanded to credits issued from North Korea, Syria, and Iran. (Summary based on [Carbon Market North America, Vol. 6, Issue 46, December 2, 2011](#).)
8. During its November 24-25 meeting in Durban, the Joint Implementation Supervisory Committee (JISC) rejected a proposal which would have required developers to provide evidence demonstrating awareness of the JI mechanism prior to building a project. The proposal would have only applied to Track 2 projects. The JISC, however, agreed to consider the topic to be relevant in the JI's future review process. (Summary based on Point Carbon article [here](#) and [CDM & JI Monitor, Vol. 8, Issue 22, 16 November 2011](#) (subscription required).)
9. The JISC has developed two proposals to allow JI credit issuance to continue beyond 2012, independent of the fate of the Kyoto Protocol. The first proposal would allow credits issued post-2012 to be linked to a subsequent obligation to cancel an equivalent amount of units from future targets under a treaty yet to be negotiated. The second proposal would allow countries to carry over AAUs from Kyoto's first period to back ERUs issued after 2012 and prior to 2015

(the deadline for surrendering AAUs and carbon credits to meet Kyoto targets). The JISC also reiterated a proposal recommended last year in Cancun to merge JI's two tracks into a single track, in order to streamline regulatory processes, create confidence in verification and transparency, and ensure integrity of the scheme. The JISC further proposed creating a government body tasked with managing the single track and handling ERU issuance, as well as a unified accreditation process for project auditors. A contact group will make a decision on this issue by December 9. (Summary based on Point Carbon article [here](#) (subscription required).)

### **North American (and Voluntary) Offset Program Developments:**

1. In early November, officials launched North America 2050 (NA 2050), a partnership between U.S. states and Canadian provinces that are members of three regional carbon trading programs (RGGI, WCI, and the Midwest Accord), as well as other interested states. NA 2050 seeks to foster collaboration in the design and implementation of cost-effective energy and low-carbon policies, demonstration of job creation from the policies, and achieving emissions reductions. Unlike RGGI and WCI, NA 2050 will not focus on cap-and-trade. Rather, NA 2050 covers a variety of issues, such as carbon capture and sequestration (CCS), harmonizing carbon offset quality standards, and preparing states to meet upcoming EPA power plant and industrial regulations. The partnership is open to any interested state and province, and also to representatives from NGOs and the private sector. (Summary based on Point Carbon article [here](#) (subscription required).)
2. By the end of the year, Quebec plans to publish regulations for its proposed cap-and-trade scheme, expected to begin in 2013. Carbon offset rules are being developed separately, with plans to publish regulations in late 2012. (Summary based on [Carbon Market North America, Vol. 6, Issue 46, December 2, 2011.](#))

### **CARB/California:**

1. No recent offset related developments.

### **RGGI:**

1. A [report](#) released by the Analysis Group on November 14 found that, in RGGI's first three-year compliance period (2009 – 2011), the program has yielded \$1.6 billion in net economic value to the ten-state region. The report also shows net savings for residential, commercial, and industrial electricity customers across the participating states. These findings contrast with the views of some that have criticized RGGI, asserting it is inefficient and creates higher costs for consumers. (Summary based on [Carbon Market North America, Vol. 6, Issue 45, November 18, 2011.](#))

### **American Carbon Registry:**

1. No recent offset related developments.

### **Alberta Offset Program:**

1. Project developers seeking to claim historic (2002-2011, inclusive) offset credits in the Alberta Offset System must have projects and emissions reduction claims verified between January and

March 31, 2012, and initiated serialization (submitted project documentation to the Alberta Emissions Offset Registry) by March 31, 2012. Historic credits already serialized will remain active until retired from the Registry. Beginning in January 1, 2012, project plans must be posted on the Registry in the same year in which the project begins generating offset credits. (Summary based on Alberta Offset Program mailing list email received November 8.)

2. Responding to industry concerns over the ability to quantify and verify 2011 vintage offset credits by March 31, 2012, the Climate Change Secretariat is currently reviewing the requirement and considering an extension for the 2011 credits (2002-2010 vintage credits still must be verified and submitted to the Registry by March 31, 2012). (Summary based on Alberta Offset Program mailing list email received November 24.)
3. Eligibility requirements for First Nations tillage management projects for historic (2002-2011 vintage) offset credits have also been established. In order to participate, First Nations must sign an agreement with Canada by March 31, 2012, transferring ownership and liability rights for credits generated from reduced and no till farming practices to the First Nation. Furthermore, First Nations must compile projects according to the [Quantification Protocol for Tillage System Management \(Version 1.3\)](#), and have records undergo third-party verification and be submitted to the Alberta Emissions Offset Registry by March 31, 2013. Ownership for tillage management credits in 2012 and beyond, and for other offset types, remain under assessment. (Summary based on Alberta Offset Program mailing list email received November 23.)
4. The Specified Gas Emitters Regulation (SGER) Fall Workshop took place in November, and presentations will be made available on Alberta Environment's [website](#). (Summary based on Alberta Offset Program mailing list email received November 18.)

#### Climate Action Reserve:

1. On November 29, CAR posted a [policy memo](#) describing revised requirements for a project's reporting start date. While previously a project developer could choose any date after the project start date to begin reporting to CAR, the memo explains that, effective immediately, any new or submitted project is required to align its initial reporting period with the start date.
2. On November 11, CAR released the [draft Mexico Forest Protocol Version 1.0](#) for public review and comment. The protocol development has aimed to align with Mexico's REDD+ strategy and California's AB 32 and carbon market. Comments may be submitted [here](#) until January 20, 2012.
3. On November 7, CAR released [errata and clarifications](#) for the [U.S. ODS Project Protocol Version 1.0](#). On November 28, CAR then released [errata and clarifications](#) for the [Article 5 Ozone Depleting Substances Project Protocol Version 1.0](#), as well as [errata and clarifications](#) for the [U.S. Landfill Project Protocol Version 2.1](#).

#### VCS Program:

1. On November 10, VCS updated two methodologies ([VM0009: Methodology for Avoided Mosaic Deforestation of Tropical Forests, v1.1](#) and [VM0010: Methodology for Improved Forest Management: Conversion from Logged to Protected Forest, v1.1](#)) in order to provide technical and editorial clarifications. Effective immediately, these updated versions supplant the previous

versions of the methodologies, which may no longer be used. Changes to VM0009 consist of clarifications to the soil carbon accounting model and soil sampling procedures. VM0010 updates include clarifications on areas eligible for modeling ongoing forest growth in the project scenario as well as to an equation calculating net greenhouse gas emissions.

2. On November 23, VCS revised [VMD0015: REDD Methodological Module: Methods for monitoring greenhouse gas emissions and removals \(M-MON\), v2.0](#) in order to add methods to precisely monitor forest degradation from natural disturbances or selective logging certified by the Forest Stewardship Council (FSC). The revision was made by Winrock International on behalf of the Nature Conservancy, assessed by two validation/verification bodies (DNV and SCS), and finally approved by VCS. This updated version is effective immediately.
3. As part of the [Standardized Approaches Initiative](#), in November, new requirements, such as performance benchmarks and positive lists, completed public consultation and were approved by the VCS board. The final requirements are expected to be released with first quarter program updates in January 2012. The Standardized Approaches Initiative, launched in December 2010, seeks to develop requirements and guidelines to streamline assessments of carbon reductions, and move beyond a project-by-project approach for determining baselines and additionality. (Summary based on VCS' [November Newsletter](#).)

#### WCI:

1. WCI jurisdictions have established a new non-profit corporation – Western Climate Initiative, Inc. (WCI, Inc.) – intended to provide administrative and technical support for implementation of state and provincial greenhouse gas emissions trading programs. The corporation's tasks will include developing a compliance tracking system for allowances and offset certificates, administering allowance auctions, and monitoring auctions and trading. The initial WCI, Inc. Board of Directors includes officials from Quebec, British Columbia, and California. The formation of WCI, Inc. furthers commitments of the participating jurisdictions to linking their respective GHG emissions trading schemes. Additional information is available on the [WCI, Inc. website](#).

#### Recent Publications:

1. The Joint Implementation Network (JIN) published the October 2011 issue of the Joint Implementation Quarterly (JIQ), Vol. 17, No.3. The issue is available for download [here](#).
2. The [CDM Rulebook](#) has been updated, reflecting decisions at the 64rd meeting of the CDM Executive Board (EB). Notably, the EB approved revisions to the [Procedure for Review of Requests for Issuance of CERs](#), clarifying rules concerning resubmission of a rejected request for issuance.
3. UNFCCC has released a report, [Benefits of the Clean Development Mechanism 2011](#), discussing improvements to sustainable development, technology transfer, and investment, as well as opportunities for improvement.
4. As part of its annual Perspectives Series, UNEP Risoe has published [Progressing Towards Post-2012 Carbon Markets](#). The report covers global policy perspectives, existing mechanisms such

as the CDM and voluntary markets, and new instruments including sectoral approaches and market mechanisms.

5. At Carbon Forum Asia 2011 in Singapore, the International Emissions Trading Association (IETA) released its annual Greenhouse Gas Market Report, [Asia and Beyond: The Roadmap to Global Carbon & Energy Markets](#). The report is comprised of a series of articles covering topics such as CDM reform, new market mechanisms, bilateral offset credit schemes, and policy impacts on offset markets.
6. The Electric Power Research Institute (EPRI) released the report, [Aggregation of Greenhouse Gas Emissions Offsets: Benefits, Existing Methods and Key Challenges](#), which analyzes approaches for offset project aggregation employed by major existing programs, including the CDM, VCS, CAR, ACR, and the Alberta Offset System.
7. The New Mechanisms Information Platform – a program of the Ministry of the Environment, Japan (MOEJ), operated by the Overseas Environmental Cooperation Center, Japan (OECC) – published their [November 2011 New Mechanisms Express pamphlet](#), which describes the country's Bilateral Offset Carbon Mechanism (BOCM) potentials and current initiatives.

### Upcoming Events:

1. The United Nations Climate Change Conference will take place from November 28 – December 9, 2011 in Durban, South Africa. The conference includes the seventeenth session of the Conference of the Parties (COP 17), the seventh session of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (CMP 7), the thirty-fifth session of the Subsidiary Body for Implementation (SBI 35), the thirty-fifth session of the Subsidiary Body for Scientific and Technological Advice (SBSTA 35), the sixteenth session of the Ad Hoc Working Group on Further Commitments for Annex I Parties under the Kyoto Protocol (fourth part) (AWG-KP 16), and the fourteenth session of the Ad Hoc Working Group on Long-term Cooperative Action (fourth part) (AWG-LCA 14). Information related to the conference, including schedules, side events, and relevant reports and decisions are available on the meeting [website](#).
  - a. Side events & exhibits at COP 17/CMP 7
    - i. The schedule of official side events and exhibits in Durban is available [here](#). A selection of events related to offsets developments include:

Scheduled	Organizer	Title
Nov. 28	Secretariat of the United Nations Framework Convention on Climate Change (UNFCCC)	Joint Implementation Supervisory Committee: question and answer session
Nov. 29	Secretariat of the United Nations Framework Convention on Climate Change (UNFCCC)	CDM Executive Board: question and answer session
Nov. 29	Carbon Capture and Storage Association (CCSA)	CCS CDM: Addressing outstanding issues
Nov. 30	Joanneum Research (JR); Climate Strategies; Oeko-Institut (Institute for Applied Ecology e.V.), Berlin	Post-2012 Market Mechanisms: addressing design and governance challenges
Dec. 1	Asociación Española de la Industria Eléctrica (UNESA)	FIDES Recommendations for the design and implementation of new market mechanisms in Latin America
Dec. 2	The Green Initiative (TGI)	The Green Initiative's Carbon Free program: helping people and biodiversity with high

		quality offsets
Dec. 3	Secretariat of the United Nations Framework Convention on Climate Change (UNFCCC)	Launching of the CDM Policy Dialogue
Dec. 7	Keidanren; Institute of Energy Economics, Japan (IEEJ)	Japan's initiative towards sustainable development - Technological Contribution and New Mechanisms
Dec. 9	Korean Standards Association (KSA); Korea Chamber of Commerce and Industry (KCCI)	Post-Kyoto offset mechanism and MRV- Korean industry's initiative

- ii. IETA will be hosting a number of side events which include discussion of offsets and market mechanisms. Event details are available [here](#).
  - iii. The Ministry of the Environment, Japan (MOEJ) will organize a workshop on November 29, "Bilateral Offset Credit mechanism and Capacity building for MRV in Asia, Latin America and Africa." Details are available [here](#).
2. The 8<sup>th</sup> Austrian JI/CDM Workshop will take place February 2-3, 2012 in Vienna, Austria. Topics to be covered include results and implications of COP 17, post-2012 offsetting in Europe, and developments and trends in carbon markets. Additional event information and a preliminary program are available [here](#).