

Tracking Offset Developments: October 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 October 20, the Japanese Ministry of Economy, Trade and Industry (METI) announced awards of subsidies to 14 companies as part of a second (and final) round of funding backing feasibility studies for emissions reduction measures in developing countries, adding to the 26 companies already selected in the first round. In total, METI plans to allocate \$32 million amongst the 40 companies to test low-carbon technologies in 18 developing countries as part of the Global Warming Mitigation Technology Promotion project under the New Energy and Industrial Technology Development Organization (NEDO) support program. Japan hopes to establish bilateral agreements that generate carbon offsets by increasing the use of low-emission technologies developed or produced by Japanese companies in developing countries. These offsets would help Japan to meet its pledge to cut emissions 25% from 1990 levels by 2020. Japan hopes the carbon offset scheme could begin in January 2013, and has noted that its scheme would supplement U.N. programs. The first round studies largely focused on Asia, and Japan has begun negotiations on bilateral projects and offset schemes in eight Asian countries. The geographic focus was expanded in the second round, which included studies of geothermal projects in Africa, energy conservation in the manufacturing sector in South Africa, and carbon capture and storage in Indonesia. (Summary based on Point Carbon article [here](#) (subscription required) and [METI press release](#).)
2. Japan is engaging in discussions with African countries, seeking support for its proposed bilateral offset mechanism. Recent meetings between Japanese and African officials, a policy dialogue held in Tokyo with climate negotiators from 18 African countries in attendance, as well as an upcoming meeting between the Japanese government and African ambassadors on November 7, are providing venues for discussions concerning collaboration on Japan's bilateral offset mechanism and official development assistance. (Summary based on Point Carbon article [here](#) (subscription required).)
3. The Kyoto regional government has become the third Japanese region to launch an emissions trading scheme. The regional scheme supports the local government's goal to cut greenhouse gas emissions 25% below 1990 levels by 2020 and 40% by 2030. Approximately 280 businesses will be required to submit three-year emission reduction plans, though participation in the emission trading scheme is voluntary. Companies can earn carbon credits called Kyo-VERs by funding emissions reduction at local small- and medium-sized facilities or participating in local forest conservation projects. In addition, the scheme permits offset credits from small, federally-operated, voluntary schemes; however, U.N.-issued credits will not be allowed as they

do not yield local emissions reductions. While the scheme has been operational since April 1, 2011, it was formally launched on October 20. Kyoto does not currently have plans to link its scheme to the two other regional markets in Tokyo and Saitama. However, Kyoto and the other prefectures in the Kansai district are contemplating expanding to a larger, district-wide scheme. (Summary based on Point Carbon article [here](#) (subscription required).)

4. Hungary is poised to become the first country to sell removal units (RMUs), and anticipates selling as many as 3.9 million. RMUs, equivalent to one tonne CO₂e, are tradable credits generated and issued under the Kyoto Protocol for Annex I countries removing atmospheric CO₂ through the land use, land use change, and forestry sector. Countries may use RMUs in place of CERs or AAUs in meeting their Kyoto targets, and Japanese companies can use these permits as well to reach voluntary targets. Hungary is currently assessing international demand for the permits, since it already has enough AAUs to meet its Kyoto target. In addition to Hungary, three other countries to date (Denmark, France, and Switzerland) have been approved to issue RMUs, but they are less likely to sell since they do not have large surpluses of Kyoto permits. (Summary based on Point Carbon article [here](#) (subscription required).)
5. On October 12, the Compliance Committee of the UNFCCC suspended Ukraine from trading AAUs and ERUs under the Joint Implementation Track 1 process. The announcement upheld a preliminary decision made in August that ruled Ukraine had breached the reporting rules, misreporting its 2008 emissions. Romania was suspended for similar reasons in August. (Summary based on Point Carbon article [here](#) (subscription required).)

CDM/JI Developments:

1. At its 52nd meeting, the CDM Methodologies Panel made several recommendations to the CDM Executive Board concerning proposed new methodologies. The Meth Panel recommended approval of methodologies focusing on cogeneration in power plants and integrated solar combined cycle projects, and issued a preliminary recommendation for high speed passenger rail systems. The Panel also rejected a methodology for an efficient electric arc furnace in steel production, and requested additional information on others including improved energy-efficient servers for I.T. data centers. The CDM Executive Board will consider these recommendations and must formally approve the recommended methodologies for them to become eligible for use. (Summary based on Meth Panel [meeting report](#) and Point Carbon article [here](#) (subscription required).)
2. At the AWG-KP session during the climate talks in Panama early this month, delegates from Japan and India objected to a proposal to drop the option to include nuclear projects in the CDM. (The Marrakech Accords currently preclude nuclear projects in the CDM.) (Summary based on Point Carbon article [here](#) (subscription required).)
3. On October 17, Sberbank – the state-owned bank that helps administer the Russian carbon market – announced it had canceled its latest carbon tender process for JI projects. Sberbank will now consider emission reduction projects of all types on a case-by-case basis until May 2012, and will inform project developers whether they will earn carbon credits within 20 days of when the application was received. This differs from the prior August tender, which was limited to the energy, industry, and waste sectors, included an allocation limit, and would likely have

taken weeks for approval. The new process responds to calls by President Medvedev to hasten the rate of credit issuance prior to the expiration of the Kyoto Protocol's first commitment period in 2012. (Summary based on [CDM & JI Monitor, Vol. 8, Issue 20, 19 October 2011](#) (subscription required).)

North American (and Voluntary) Offset Program Developments:

CARB/California:

1. On October 20, CARB's eight members unanimously voted to approve the final regulations for the economy-wide cap-and-trade scheme. The regulations will play a key role in achieving California's goal to reduce greenhouse gas emissions to 1990 levels by 2020. Approximately 350 companies, which represent about 600 facilities in the State, will be required to comply with the program's emission reduction scheme starting in 2013. By 2015, the scheme will cover 85% of the state's economy once the cap is extended to include transportation fuels. While CARB has engaged stakeholders throughout the process to address concerns while still meeting the scheme's environmental goals, many observers have speculated that the cap-and-trade program could still face lawsuits from affected parties, suggesting oil companies and out-of-state utilities as possible plaintiffs. (Summary based on [Carbon Market North America, Vol.6, Issue 41, October 21, 2011.](#))
2. The Conservation Fund has voiced concerns over liability on forest owners under CARB's cap-and-trade scheme. Under the rules, the forest owners would be held responsible for replacing offsets if CARB deems them ineligible due to accounting problems or other issues. The Conservation Fund is primarily concerned about accepting responsibility for any errors that occur beyond their control, and suggested that an independent, third-party should evaluate situations where the source of the mistake is unclear. [Note: CARB has clarified that offsets from all project types, not just forestry projects, can be subject to being revoked if errors due to accounting/fraud are discovered within the specified statute of limitations for that project type.] (Summary based on [Carbon Market North America, Vol.6, Issue 41, October 21, 2011.](#))
3. On October 11, CARB released a plan allowing it to revise the cap-and-trade program in the future if necessary. While revisions are unlikely after the scheme is launched, CARB is particularly interested in monitoring impacts on forests and could decide that certain types of forestry offsets are no longer eligible. Forestry offsets have been slow to trade in California's pre-compliance market, despite being the cheapest credit type. Point Carbon attributes this to concerns that CARB could revise the program and deem forestry projects ineligible, in addition to other challenges such as risk of intentional and unintentional reversals. (Summary based on Point Carbon article [here](#) (subscription required).)

RGGI:

1. No recent offset related developments.

American Carbon Registry:

1. On October 5, ACR approved the [Improved Forest Management Methodology for Quantifying GHG Removals and Emission Reductions through Increased Forest Carbon Sequestration on Non-Federal U.S. Forestlands](#), developed by Columbia Carbon LLC. The methodology seeks to increase access to the carbon market and decrease conversion of private forests to other uses, targeting the non-federally owned forests which comprise 66% of U.S. forestland. In particular, this new methodology is intended to address the lack of participation from family forest owners in developing IFM projects under other protocols that were found to be either not applicable or practical for family forest owners.
2. On October 24, ACR announced a partnership with the Pinchot Institute to pilot the Forest Health-Human Health (FHHH) Initiative. The Initiative was developed following a research finding by the Pinchot Institute that unanticipated or long-term health care expenses are a leading cause for the sale, development, or harvesting of family-owned forests. Under the FHHH Initiative, revenue from carbon offsets will be banked to cover health care costs while protecting forestland. This is the first initiative to link forest carbon projects and affordable health care for landowners. A pilot phase has begun in Columbia County, OR, using ACR's family forests IFM methodology (see above). Additional info available [here](#).

Alberta Offset Program:

1. The Fall Protocol Stakeholder Review Session for the Alberta Offset System will be postponed to allow developers to complete the first-round technical review submissions. Eligible protocols for this development cycle are limited to those that previously met the Intent to Develop a Protocol submission deadline in April and have been approved in concept by Alberta Environment. The new deadline for the first-round of technically-reviewed draft protocols is January 3, 2012. At the 2nd Round Stakeholder Review session, tentatively scheduled for January 18, developers will present their draft protocols for discussion. Further information concerning the stakeholder review will become available as the deadline approaches. (Summary based on Alberta Offset Program mailing list email received October 6. Additional information available [here](#).)
2. The Government of Alberta has released the following draft protocols for a 30-day public review period: [Conservation Cropping Quantification Protocol](#) (formerly Tillage Management Quantification Protocol), [Residual Feed Intake in Beef Cattle Quantification Protocol](#), [Solution Gas Conservation Quantification Protocol](#), and [Conversion of Drilling Rigs from Diesel-Electric to High-line Electricity Sources Quantification Protocol](#). Directions for submitting comments (by November 25) are available [here](#).

Climate Action Reserve:

1. On October 26, CAR released a revised [Program Manual](#), which summarizes CAR's principles, accounting guidelines, and rules and procedures. A summary of changes – including new sections on crediting, project completion, and reporting periods, and revisions concerning account types, Climate Reserve Tonne (CRT) and project transfers, the verification cycle, and grace periods, among others – is provided [here](#).

2. On October 26, CAR released errata and clarifications for the following methodologies and versions: [U.S. Landfill V4.0, V3.0, V2.1, and V2.0](#); [U.S. Livestock V3.0, V2.2, and V2.1](#); and [Organic Waste Digestion V2.0](#).
3. On October 14, CAR released the [Draft Rice Cultivation Project Protocol Version 1.0](#) for public review and comment. Comments may be submitted [here](#) until November 11.
4. On September 28, the Reserve Board adopted the [Nitric Acid Production Project Protocol Version 2.0](#). Additional information on the protocol development process is available [here](#).

VCS Program:

1. On October 19, the VCS Association released several updates to Version 3 Program Documents. Key updates include: updated Agriculture Forestry and Other Land Use (AFOLU) requirements for a new eligible project category, Avoided Conversion of Grassland and Shrublands (ACoGS); updated procedures for oversight and updating of approved methodologies; a new Methodology Assessment Report template for validation/verification bodies (VVBs); and a new pathway for temporary accreditation of VVBs. The changes are summarized in the [update catalogue](#), and have been incorporated directly into the program documents, available [here](#). Quarterly summaries of updates to VCS documentation are also maintained [here](#).
2. On October 5, an 18-module agricultural land management (ALM) methodology, [Soil Carbon Methodology v.1.0](#), was posted for public comment. The methodology, developed by The Earth Partners, would apply to ALM projects on agricultural and forest lands, as well as grasslands and rangelands. Comments may be submitted [here](#) until November 3.

WCI:

1. No recent offset related developments.

Recent Publications:

1. The [CDM Rulebook](#) has been updated, reflecting decisions at the 63rd meeting of the CDM Executive Board. Updates include new guidelines concerning programmes of activities (PoAs) and additionality with respect to CDM project activities.

Upcoming Events:

1. The 53rd meeting of the Methodologies Panel will take place from October 31-November 4 in Bonn, Germany.
2. The 64th meeting of the CDM Executive Board will take place from November 21-25 in Durban, South Africa.
3. The 17th session of the UNFCCC Conference of the Parties (COP17) will take place from November 28-December 9 in Durban, South Africa.