

Tracking Offset Developments: September 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. Guangdong, China's most populous and biggest manufacturing province, launched a study of a potential emissions trading scheme covering energy production and building materials sectors, which would plan to allow use of U.N. offset credits. The scheme's rules are still under development, but will hopefully be finalized by March 2013, with trading possibly beginning that same year. CERs would be allowed from projects in other Chinese provinces, though possible limitations in eligibility of credits from particular project types (such as the contentious HFC-23 and adipic acid N₂O) have not yet been determined. (Summary based on Point Carbon article [here](#) (subscription required).)
2. At the fifth annual India Carbon Market Conclave, a Ministry of Environment & Forests official noted opportunities for India to pursue bilateral offset schemes, though partners in particular regions or countries have not yet been identified. Japan has agreed to buy credits from Indian projects under its bilateral offset mechanism. (Summary based on Point Carbon article [here](#) (subscription required).)
3. The Nordic Group on Climate Change (NOAK) and the Nordic Environment Finance Corporation (NEFCO) have established a partnership aiming to fund and provide technical expertise for pilot carbon markets in developing countries. In a feasibility study, Peru and Vietnam selected pilot programs in the waste and cement sectors, respectively. The NOAK-NEFCO Partnership hopes to raise €2-5 million within the next few years and launch the pilot schemes in early 2012. The program is similar to the World Bank's Partnership for Market Readiness (PMR), which has already received applications from Chile, China, Colombia, Costa Rica, Indonesia, Mexico, Morocco, Thailand, Turkey, and Ukraine. An earlier [scoping study](#) commissioned by NEFCO summarized other similar initiatives in order to explore possible linkages and avoid overlaps. While the exact relationship between the NOAK-NEFCO Partnership and PMR is unclear, according to the study, the PMF will likely address a broader set of market instruments. (Summary based on Point Carbon article [here](#) (subscription required).)
4. On September 30, New Zealand proposed banning CERs from HFC-23 and N₂O industrial gas projects. The move is intended to avoid an oversupply of credits which could lower carbon prices in the country's emissions trading scheme, based on concerns that cheap offsets could flood the New Zealand market in 2013 due to the EU ban of these offset types. (Summary based on [Carbon Market North America, Vol. 6, Issue 38, September 30, 2011.](#))
5. The EU has reiterated its potential support for extending the Kyoto Protocol, conditional on major emitters indicating when they will commit to taking on binding targets. EU backing of the

Protocol would also be contingent on it expiring in 2018 and being replaced by a single global agreement to cap all major countries' emissions. (Summary based on [Carbon Market Europe, Vol. 10, Issue 34, 9 September 2011](#) (subscription required).)

CDM/JI Developments:

1. Due to flaws in GHG emissions reporting, Romania has been suspended from transferring ERUs from Track 1 JI projects, as well as other UN-backed credits. The suspension went into effect immediately, and if it continues to April of next year, Romanian firms covered by the ETS will be able to surrender permits for compliance with 2011 emission caps, but lose the ability to trade spot permits or trade EUAs for cheaper credits. A similar reporting breach was discovered in the Ukraine who may also face suspension from trading AAUs and ERUs under Track 1. (Summary based on [CDM & JI Monitor, Vol. 8, Issue 17, 7 September 2011](#) (subscription required).)
2. The Joint Implementation Supervisory Committee (JISC) has outlined a list of proposals to be presented at the upcoming climate talks in Durban. One recommendation is to transfer the responsibility for all ERU issuance from host countries to the JISC. Issues have arisen in recent months, such as reporting flaws which led to countries being suspended from transferring credits (see above). Under JISC's proposal, Track 1 JI project registration would continue to be delegated to the host country, but the JISC would issue credits upon submission of validation reports by verifiers or third-party auditors. JISC has also made two recommendations concerning earning credits post-2012 if there is a "Kyoto gap": one to allow JISC to issue ERUs post-2012 from GHG reductions occurring between 2008 and 2012, and a second to allow Kyoto Protocol signatories to issue ERUs from deductions from host countries' future emission reduction targets. Materials from the September 13-14 JISC meeting are available [here](#), including the [Recommendations on options for building on the approaches embodied in JI as a part of the CMP's first review of the JI guidelines](#). (Summary based on Point Carbon article [here](#) and [CDM & JI Monitor, Vol. 8, Issue 18, 21 September 2011](#) (subscription required).)
3. Various media outlets have drawn attention to whether the EU might ban more CER project types from use in the EU ETS, as they have done for N₂O and HFC projects post-2012. Both predictability and environmental integrity of CDM projects are cited as important considerations. (Summary based on Point Carbon articles [here](#) and [here](#) (subscription required).)
4. Possible inclusion of carbon capture and storage (CCS) in the CDM continues to be debated, with liability for possible leaks cited as a key issue. Whether project developers, host countries, or buyers would be held responsible for replacing credits and paying for damages has yet to be determined. A technical panel will present on the topic at the upcoming climate talks in Durban, though a decision at the meeting is unlikely. (Summary based on [CDM & JI Monitor, Vol. 8, Issue 18, 21 September 2011](#) (subscription required).)

North American (and Voluntary) Offset Program Developments:

CARB/California:

1. The draft of CARB's proposed cap-and-trade regulations released on September 12 retains the offset buyer liability provision that has previously drawn concerns from groups such as IETA. The new rules revised the statute of limitations on revocability of offsets. For ODS projects the statute of limitations was reduced from 5 years to 3 years. Other project types may also qualify for a 3-yr. statute of limitation if a different verification body verifies a subsequent verification report for the offset project within three years (Summary based on Point Carbon articles [here](#) and [here](#) (subscription required), and [Carbon Market North America, Vol. 6, Issue 36, September 16, 2011.](#))
2. On September 12, CARB posted the [Second Notice of Public Availability of Modified Text and Availability of Additional Documents and Information](#), with a deadline for comments of September 27. CARB will consider final approval of the proposed regulations on October 20, which in turn must be filed with the California Office of Administrative Law (OAL) by October 28. Additional information and documents are available on CARB's [Cap and Trade 2010 website](#). Changes specifically pertaining to offsets include:
 - a. New section 95971(b) was added to include a periodic review of approved Compliance Offset Protocols.
 - b. Modification of Section 95973(a)(2) to clarify that early action offset projects may have an earlier offset project commencement date than Compliance Offset projects.
 - c. Modification of Section 95977(b) to allow projects that produce very few offset credits each year to qualify for a 2-yr., instead of annual, verification cycle.
 - d. Modification of Section 95979(b)(4) to clarify when the same offset verification body can provide offset verification services for an offset project.
 - e. Modifications of Section 95985(b) to focus and clarify timeframe in which ARB may invalidate ARB offset credits (no change in 8 yr. statute of limitations). Deleted text stating that ARB offset credits could be invalidated based on clerical errors or any errors that would not affect the number of ARB offset credits that were issued.
 - f. New Sections 95985(c)(1)(A) – (c)(1)(C)(3) added to include a process by which ARB would determine if there was an overstatement in the number of ARB offset credits issued.
 - g. Section 95985(b)(5) deleted and replaced changing the statute of limitations for ODS projects from 5 to 3 years.
 - h. Replaced Section 95985(b)(6) with 95985(b)(1)(B) to include new provision that offset projects may qualify for a three year statute of limitation if a different verification body verifies a subsequent offset project data report for the offset project within three years. This would exceed the requirement for offset project operators to switch verification bodies before the six year verification body rotation requirement.
 - i. New Section 95985(c)(4)(B) to clarify that reversals from forest offset projects do not trigger an invalidation and reversals will be handled according to permanence requirements.

- j. New Section 95985(h)(1)(B) added to require parties that have offsets invalidated to replace ARB offset credits within 6 months of being notified.
 - k. New sections 95985(h)(1)(C)(1.) through (h)(1)(C)(3.) require offset project operator to replace ARB offset credits even if the parties identified are no longer in business.
 - l. Section 95990(c)(3) modified to extend the latest date that an early action offset project can register or list their projects with an Early Action Offset Program from Jan. 1, 2013 to Jan. 1, 2014.
 - m. Section 95990(k)(1) was modified to allow early action offset project to transition to Compliance Offset Protocols earlier than Jan. 1, 2013.
3. On September 28, California's Supreme Court denied a request to halt implementation of CA's cap-and-trade system. This move clears another hurdle as CARB considers approval of the final regulations in October. (Summary based on [Carbon Market North America, Vol. 6, Issue 38, September 30, 2011.](#))

RGGI:

1. On September 14, RGGI released the first in a series of annual reports: [CO₂ Emissions from Electricity Generation and Imports in the 10-State Regional Greenhouse Gas Initiative: 2009 Monitoring Report](#). The monitoring report, required by the 2005 RGGI MOU, summarizes electricity generation and imports, and CO₂ emissions in RGGI states from 2005-2009.
2. A meeting seeking to collect stakeholder input in preparation for the 2012 program review took place on September 19. Materials from the stakeholder meeting, including the agenda and presentations, are now available on the [RGGI website](#).

American Carbon Registry:

1. No recent offset related developments.

Alberta Offset Program:

1. Alberta Environment has approved a new offset quantification protocol: [Direct Reductions in Greenhouse Gas Emissions Arising from Changes in Forest Harvest Practices](#). In addition, revisions have been made to the following three protocols: [Including Edible Oils in Cattle Feeding Regimes](#), [Reducing Days on Feed of Beef Cattle](#), and [Reduced Age at Harvest of Beef Cattle](#).
2. Alberta Environment has announced two upcoming workshops (to be held in Edmonton on November 9 and in Calgary on November 10). The workshops will focus on program updates, 2010 and 2011 compliance, and verification requirements. (Summary based on Alberta Offset Program mailing list email received September 16.)

Climate Action Reserve:

1. On September 13, CAR released the [Mexico Landfill Project Protocol Version 1.1](#), which provides updated guidance for landfill gas collection and destruction projects in Mexico.

VCS Program:

1. On September 1, VCS released draft requirements for standardized approaches for baselines and additionality for public consultation. Comments on the draft requirements will be accepted until October 30. Details on the consultation process and draft requirements are available [here](#).
2. The [Methodology for Sustainable Grassland Management \(SGM\)](#), developed by the Food and Agriculture Organization of the United Nations (FAO), is open for public comment until October 6. Comments may be submitted [here](#).
3. September 8 marked the end of the grace period for referencing VCS Version 2007.1 documents, now fully transitioning to [Version 3 program documents](#). All validation reports referencing 2007.1 must have been completed by September 8, though verification reports can still be issued for these 2007.1 validation projects. Changes in Version 3 documents include significant streamlining (e.g., clarification of program rules and requirements, incorporation of prior program updates) as well as expanded scope and functionality (for example, pertaining to the Methodology Approval Process, AFOLU, and grouped projects). The [Synopsis of the VCS Version 3 Consultation and Release](#) document details the Version 3 updates. (Summary based on [September Newsletter](#).)
4. On September 8, VCS announced a [revision](#) by the Field Museum to [VMD0007 – REDD Methodological Module: Estimation of baseline carbon stock changes and greenhouse gas emissions from unplanned deforestation \(BL-UP\)](#). This change entailed inclusion of a second option for estimating the baseline deforestation rate. Projects may now choose between the “simple historic” option (based on observed historic deforestation trends) and the new “population driver” approach (based on the observed historic relationship between population and deforestation).
5. On September 20, VCS approved a new methodology, [VM0016 Recovery and Destruction of Ozone-Depleting Substances \(ODS\) from Products](#), developed by USG Umweltservice GmbH and Energy Changes Projektentwicklung GmbH. A webinar introducing the new methodology will take place on October 5 (details [here](#)).

WCI:

1. No recent offset related developments.

Recent Publications:

1. The [New Mechanisms Information Platform](#), established by the Ministry of the Environment, Japan (MOEJ), recently published a pamphlet discussing topics such as new market mechanisms, MRV systems, and Japan’s initiatives on Bilateral Offset Credit Mechanisms (BOCM). The New Mechanisms Express pamphlet is available [here](#).

Upcoming Events:

1. Carbon Forum Asia will take place on November 2-3, 2011 in Marina Bay Sands, Singapore. Topics to be discussed include carbon market trends and developments, CDM, voluntary carbon markets, and offset demand, among others. Details available [here](#).

2. Carbon Expo Australasia will take place on November 7-9, 2011 in Melbourne, Australia. Topics covered in the conference include the future of the voluntary market, CDM developments and prospects, and offsets from the Carbon Farming Initiative, among others. Details available [here](#).
3. Partnership for Market Readiness Workshop and 2nd Meeting of the Partnership Assembly will take place on Oct. 26-28, 2011 in Istanbul, Turkey.