



TFG Briefing Note on Proposed CA AB 32 Regulations (November 2010)

Summary: In October 2010, the California Air Resource Board (ARB) released draft regulations to implement AB 32, California’s global warming law. ARB will vote on these regulations on December 16, 2010. The proposed regulations and accompanying staff report bolster prospects for up to 74 million tons (CO₂ equivalent) in compliant demand for emission reductions from reducing deforestation in developing countries (REDD). The proposed regulations are the largest, most advanced global outlet for compliance REDD credits from nested projects or jurisdictional policies.

How can offsets enter the CA cap and trade system?

Offsets can enter California’s system either through ARB approved *protocols* or ARB approved *programs*. All ARB approved *protocols* have been developed by the Climate Action Reserve, are for domestic offsets, and are eligible for early action crediting. ARB approved *programs* will include linked programs with partner compliance entities (such as the Western Climate Initiative) and sector-based offsets. Currently, REDD is the only offset category explicitly designated as eligible for sector-based crediting.

How many potential REDD credits?

The new proposed regulations allow for 8% of a compliance entity’s obligations to be met with offsets. Of these, sector-based credits will likely be restricted to 25%/25%/50% of the offset limit for 1st/2nd/3rd compliance periods, respectively. This translates into a *maximum* REDD offset demand of 74.3 million tons of CO₂ from 2012 to 2020 (see chart).

	Year	GHG	Offset	Sectoral
		Allowances	Maximum	Maximum
1st Period	2012	165.8	13.3	3.3
	2013	162.8	13.0	3.3
	2014	159.7	12.8	3.2
2nd Period	2015	394.5	31.6	7.9
	2016	382.4	30.6	7.6
	2017	370.4	29.6	7.4
3rd Period	2018	358.3	28.7	14.3
	2019	346.3	27.7	13.9
	2020	334.2	26.7	13.4
Totals		2,674.4	214.0	74.3

Sector-based offsets: jurisdiction-scale developing country offsets

To be eligible for sector offsets in California’s program, an entire sub-national jurisdiction’s sector such as cement or forestry, must have emissions below a crediting baseline. The crediting baseline itself must be below a historical average of emissions for that sector in that jurisdiction. REDD is the only category explicitly proposed for sector-based credits in the regulations. More detailed rules will be needed in coming years and these will likely be informed by the Governors Climate & Forests Taskforce (GCF).

Proposed California Sectoral Requirements for REDD

1. **Historical deforestation emissions** must be calculated for “gross” deforestation over the past 10 years.
2. Jurisdictions & ARB must approve **plans** to lower emissions below historical emissions by 2020.
3. **Forest carbon inventories** must follow IPCC guidance, likely at Tier 2 or higher.
4. Jurisdictions that use **nested-REDD projects** must have accounting systems to reconcile nested project-based GHG reductions with sector-level accounting.
5. Jurisdictions must plan to **retire** and **ensure permanence** of the REDD credits.
6. Mechanisms must be in place for **public consultation** and **participation** in the program design.