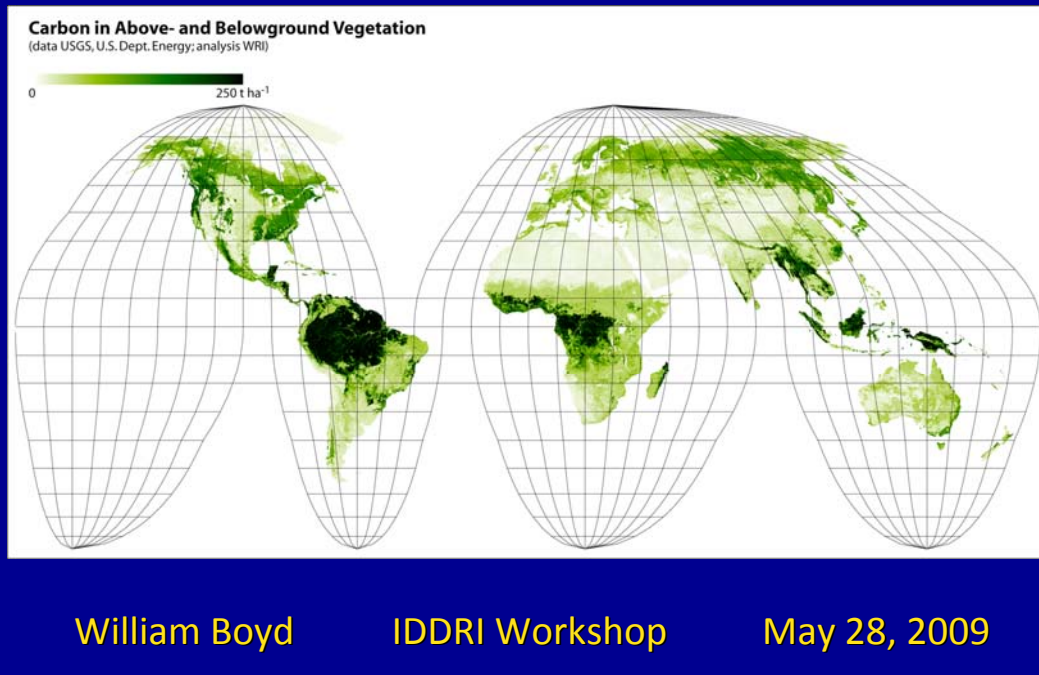


REDD & U.S. Climate Policy



Some background –

From a carbon standpoint - not all forests created equal - important slide b/c it shows that tropical forests have much higher carbon density -- tons of carbon per unit area - - than temperate or boreal forests. From a climate standpoint this is critical - deforestation in the tropics has much greater impact in terms of emissions

Think of Brazil as the Saudi Arabia of Live Carbon

There are good reasons to focus on and even privilege live carbon over dead carbon because of the irreversible nature of tropical forest loss (which is not the case with coal-fired power plants – we devalue fixed capital all the time – painful as it is) and because of the many co-benefits associated with forest protection.

Key part of the climate challenge is managing terrestrial carbon – about 200 billion tons of Carbon in tropical forests – leaking out at rate of about 2 billions tons per year – huge part of the problem – if sizable chunk of this ends up in the atmosphere – we are in big trouble.

Overview

- REDD and emerging federal GHG compliance system - American Clean Energy & Security Act of 2009 (H.R. 2454)
 - Overview of the bill
 - REDD provisions
 - Issues/concerns going forward
- REDD and California GHG compliance system
 - Status
 - MOUs
 - Issues/concerns going forward

The American Clean Energy & Security Act of 2009 (H.R. 2454)

- Structure of the bill
 - Title I – Clean Energy (Federal RPS; CCS; Clean Fuels & Vehicles; Smart Grid & Transmission)
 - Title II – Energy Efficiency (Residential; Commercial; Utilities; Industrial; etc.)
 - Title III – Reducing Global Warming Pollution (Cap & Trade; GHG Standards)
 - Title IV – Transitioning to a Clean E Economy (Competitiveness; Green jobs; Consumer assistance; Adaptation)

Structure of H.R. 2454 Cap-and-Trade Proposal

- Reduction targets (economy-wide and capped sectors)
- Designation & registration of GHGs
- Program rules
 - Emission allowances
 - Compliance obligations (incl. alternative compliance options)
 - Trading, banking, and borrowing
 - Strategic reserve
 - International emission allowances
- Offsets
- Supplemental reductions from reduced deforestation
- Carbon market assurance

7 GHGs + those designated by administrator if GWP equal to or greater than CO₂ – but no title VI gases

Coverage of sources phases in – covers 68% of emissions in 2012; 75% in 2014; 84% in 2016

Cap goes from 20% below 2005 levels by 2020 to 83% below 2005 levels by 2050

What sectors are covered and what is point of regulation – hybrid – see 368

- Electricity – downstream
- Fuel producers and importers – upstream approach to transportation
- Fluorinated gas producers and importers – upstream
- Sequestration sites – downstream (interesting)
- Industrial stationary sources (downstream)
- Industrial fossil fuel combustion devices (downstream)
- Local distribution companies (natural gas that they deliver – midstream)

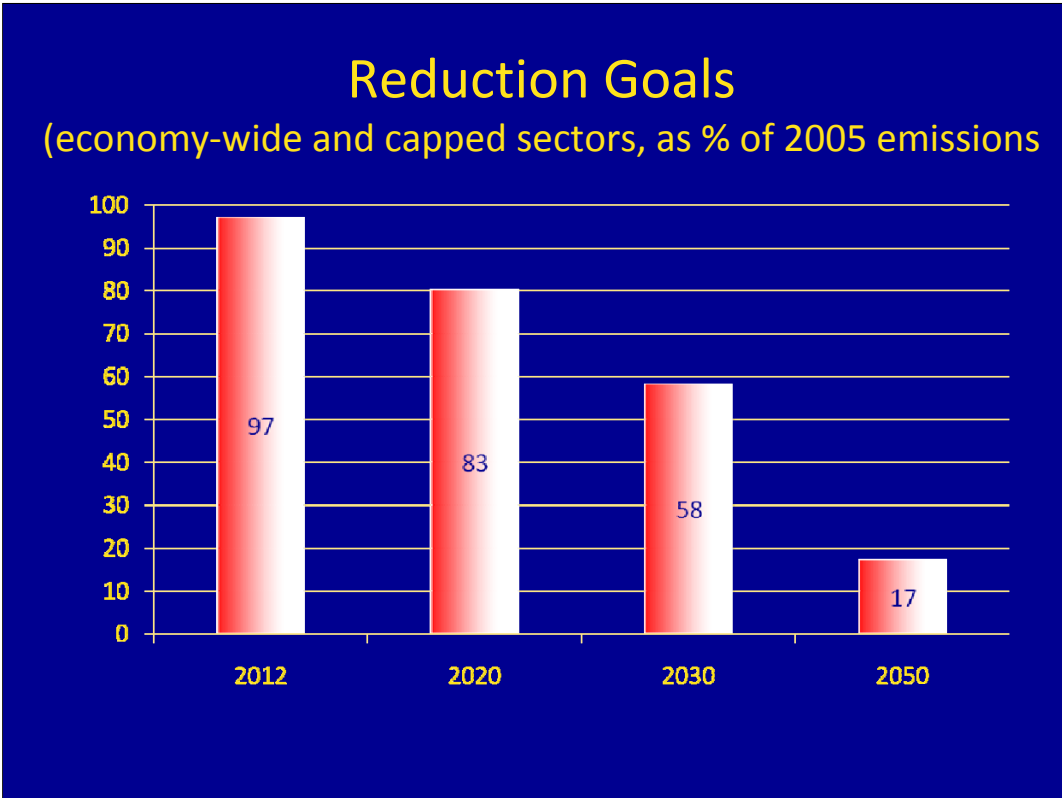
What happens if your emissions are covered under 2 categories?

3 alternative compliance options:

(1) Offsets (to be discussed) – how much

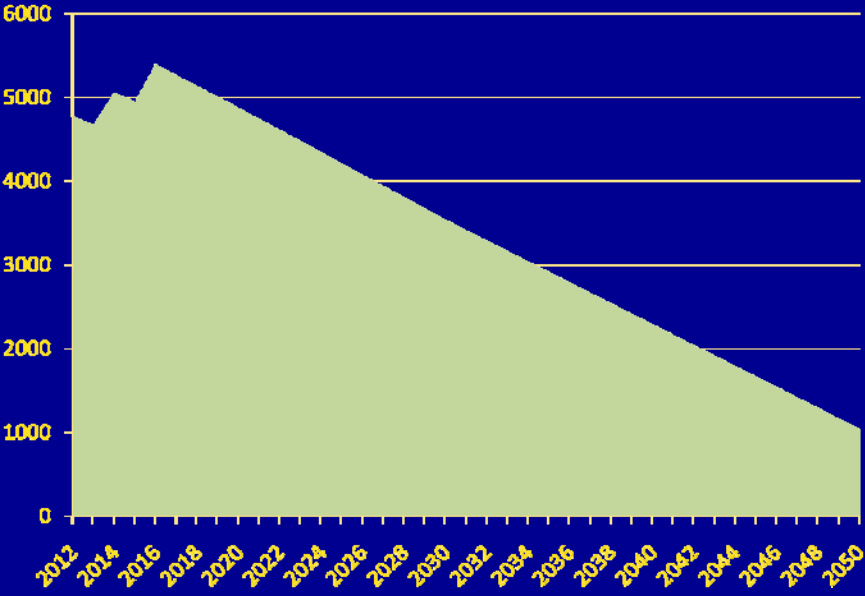
(2) International emissions allowances from designated programs (i.e. EU ETS) – see pp. 396

(3) Compensatory allowances – what are these? P. 365



Relative to 2005 baseline – what is that? 7206MMT (p. 362)

Emission Allowances for Each Calendar Year (in millions)



Two Key RED(D) Provisions in H.R. 2454

1. Set Aside of Emission Allowances
 - Capacity building
 - Leakage
 - Supplemental reductions
2. International Offsets for Reduced Deforestation

Set Aside of Emission Allowances for REDD

- Similar in concept to Phase 1 & 2 activities from Norway REDD-OAR
- Amount of set aside – substantial increase over previous proposals
 - 5% of total allowances from 2012 to 2025 (~250 million allowances/yr in the early years) – REAL MONEY
 - 3% from 2026 to 2030
 - 2% from 2031 to 2050
- Use of allowances
 - Supplemental reductions of at least 720 MT CO₂e by 2020 (~10% of US 2005 emissions); cumulative reductions of 6 GT CO₂e by 2025
 - Capacity building and market readiness
 - Protection against international leakage (HFLD countries)
- Allowances can be distributed directly to countries; private or public entities; or international fund – but rules/standards run with the money

Set aside – amount 5% of allowances from 2012 to 2025; 3% from 2026 to 2030; 2 percent from 2031 to 2050 – BUT % must be modified as necessary to ensure achievement of annual supplemental reduction objective for 2020 and cumulative reduction target for 2025

What are those reductions – an additional 10% below 2005 levels by 2020 (720 million tons) and cumulative reductions of 6 billion tons by 2025. Make clear what is going on – taking money from 5% of allowances and using it to buy supplemental reductions

Other objectives – capacity building + preserve stocks on low defor countries

Rules – eligible countries must have agreement with the US and either be experiencing or at risk of deforestation – can support a range of activities – (pp. 440-41) – can distribute allowances to a country or to a fund; standards apply as well – real reductions; national baselines; countries only get 5 years in the program with one possible extension

Set Aside (cont.)

- Eligible Activities
 - National and subnational reduction activities
 - MMV
 - Forest governance and enforcement
 - Policy reforms
- Requirements for participation
 - Bilateral/multilateral agreement with US including commitment to establish national baseline; trajectory to zero net deforestation in 20 years; protection of rights/interests and benefit sharing
 - 5 year limit on participation (with possible extension of 5 years)
- Rationale for supplemental reductions
 - Additional (early?) reductions at lower cost
 - Bali commitments
- Policy (and political) concerns?
 - Set aside is a zero-sum game and must compete with other domestic needs and general hostility to ODA-type funding
 - Requirements for participation too onerous?

Supplemental reductions – novel concept

Offsets from Reduced Deforestation

- Focus on deforestation; Administrator may add degradation in rulemaking
- Part of international offsets provisions – up to 1 billion tons/year!
- 3 categories of eligible activities
 - National-level activities
 - State- or province-level activities
 - Project- or program-level activities
- RED offsets also used to replenish strategic reserve (another source of demand for RED)

Offsets from Reduced Deforestation (cont.)

National-level activities - requirements

- Bilateral/multilateral agreement with US
- Ex post crediting
- Discounting for uncertainty
- Demonstrated capacity for RED(D)
 - Technical capacity
 - Institutional capacity
 - Strategic plan for forest/land use sector
- National deforestation baseline
 - Consistent with NAMAs
 - Based on avg historical deforestation rates for at least 5 years and “other factors”
 - Trajectory to zero net deforestation within 20 years
- Protection of rights/interests and benefit sharing for indigenous peoples and forest-dependent communities

Offsets from Reduced Deforestation (cont.)

State- or province-level activities - requirements

- Bilateral/multilateral agreement with US (??)
- Restricted to countries with >1% of total global emissions and >3% of LULUCF emissions
- State or province must itself be “major emitter of GHGs from tropical deforestation on a scale commensurate to the emissions of other countries” (??)
- Demonstrated capacity for RED(D): technical + institutional + strategic plan
- State/province deforestation baseline
 - Consistent with any existing NAMA
 - Based on avg historical deforestation rates in state/province for at least 5 years and “other factors”
 - Trajectory to zero net deforestation within 20 years (??)
- Phase out: 5 years after US compliance system goes live
- Protection of rights/interests and benefit sharing for indigenous peoples and forest-dependent communities

Offsets from Reduced Deforestation (cont.)

Project- or program-level activities - requirements

- Restricted to countries with <1% of total global emissions and <3% of LULUCF emissions + working toward national strategic plan for forest/land-use sector
- Project- or program-level deforestation baseline
 - Consistent with any existing NAMA
 - Based on avg historical deforestation rates in “project or program boundary” for at least 5 years and “other factors” (??)
 - Adjusted for leakage
- Phase out: 5 years after US compliance system goes live with possible extension up to 8 years for activities in “least developed nations” if country lacks national capacity but is working toward “credible national strategy”

Offsets from Reduced Deforestation -Some Concerns-

- Eligibility requirements too difficult/onerous (particularly for subnational) – chilling effect on the market
- BUT – potential pool of international offsets very large – vulnerable to domestic opposition
- May not fully synch up with international process – could lead to rules that are at odds with what comes out of Copenhagen

Substance versus Procedure

John Dingell (D-MI) on Legislative Drafting

“If you let me write the procedures for a law, I’ll let you write the substance, and I’ll screw you every time.”

too much procedural complexity undermines substantive goals



California and REDD

California Global Warming Solutions Act of 2006 (AB 32) authorizes Air Resources Board (ARB) to develop cap-and-trade system

2008 ARB Scoping Plan provides framework for regulations – regs due by end of 2010 – Scoping Plan specifically mentions offsets from REDD with appropriate jurisdiction-wide accounting at subnational level

California and REDD (cont.)

Nov. 2008 – Governors' Climate Summit MOUs b/w California, Illinois, Wisconsin, Amapá, Amazonas, MatoGrosso, Pará, Aceh and Papua

MOU commits signatories to develop rules for compliance-grade REDD credits from Brazil and Indonesia

Implementation activities ongoing in 2009 with financial support from David & Lucille Packard Foundation and Gordon & Betty Moore Foundation – focus on:

- project-level standards/criteria
- accounting frameworks and coordinating mechanisms
- needs assessment

California and REDD (cont.)

Overall objective is to inform AB 32 rulemaking process (2009-2010) and develop rules for first compliance-grade REDD offsets

Moving toward proof-of-concept – paying careful attention to national and international REDD discussions

Even if (or when) California system is subsumed by US federal system – California rulemaking efforts will inform federal rulemaking efforts – *e.g.*, could provide basis for rules on state/province-level activities in federal system

