



Linking Offsets From Mexico into California's Greenhouse Gas Cap and Trade Program

Adam Diamant
Technical Executive

Carbon Forum North America 2012
October 1, 2012

Together...Shaping the Future of Electricity



- **EPRI is a non-profit “501(c)(3)”** scientific research consortium founded in 1973 to perform objective research and development relating to the generation, delivery and use of electricity for the benefit of the public.
- EPRI has **450+ participants in more than 40 countries** around the world.
- In the U.S., EPRI participants generate **more than 90% of electricity delivered.**
- **Principal locations** — Palo Alto, CA, Charlotte, NC and Knoxville, TN

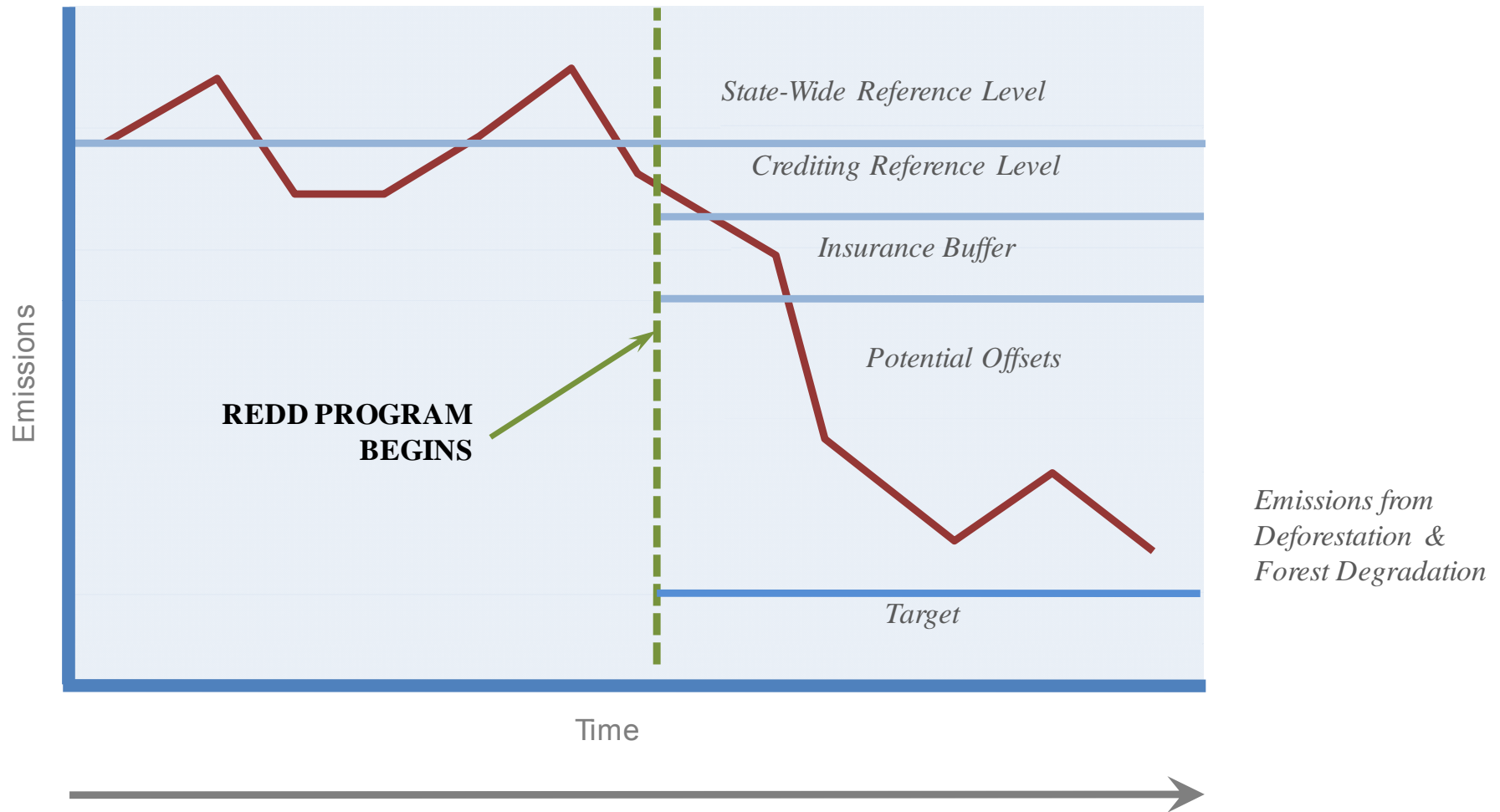
Overview of CA's GHG Mitigation Program

- Goal: return to 1990 statewide GHG emissions by 2020.
 - cap-and-trade and “complementary measures” (LCFS, RPS, others).
 - Aggregate GHG emissions limit is ~2.37 GtCO₂e from 2013–2020
- Covered entities are allowed to use offsets to **cover up to 8% of their compliance obligation** annually (~200 MtCO₂e total)
 - Sources of compliance offsets include offsets issued directly by ARB and offsets issued by a linked regulatory program (e.g., Quebec ?)
 - Four approved ARB compliance protocols:
 - Forestry
 - Ozone depleting substances
 - All four protocols initially were developed by the Climate Action Reserve (CAR), which also has developed protocols for use in Mexico (Forests, Landfill, Livestock). These protocols are not likely to create compliance quality offsets in CA.
 - Livestock methane destruction
 - Urban forestry
 - Many analysts believe there could be a significant shortage of offsets in CA, particularly in CP2 and CP3. This shortage may be alleviated by REDD-based offsets from Chiapas and elsewhere.

Use of International Offsets

- Direct “linking” with states/provinces in the WCI (e.g. Quebec). Potentially this could apply to states in Mexico.
- ARB regulations include a “framework” that allows for use of international offsets from “sectoral” programs for compliance
 - 2010 Initial regulatory focus on REDD-based offsets
 - MOU signed by California, Chiapas, Mexico & Acre, Brazil to work towards establishing qualifying REDD offset programs
 - International offsets are not anticipated until 2015 or later
- The amount of international sector-based offset credits allowed to be used by covered entities is limited:
 - CP 1 & 2: Usage limit is 25% of overall offset limit (i.e., 2% of compliance obligation); and,
 - CP 3: 50% of offset limit (i.e., 4% of compliance obligation)

Hypothetical State-wide Deforestation Reference Level and Offsets Crediting



Source: Overview of Subnational Programs to Reduce Emissions from Deforestation and Forest Degradation (REDD) as Part of the Governors' Climate and Forests Task Force. EPRI, Palo Alto, CA: 2012. 1023811. Figure 2-2.

REDD Program Development in Chiapas, Mexico

- Chiapas has been developing a REDD+ program since 2010 when it made a formal commitment to do so.
- The federal and state governments have taken actions to create incentives for conservation, sustainable agricultural practices, and capacity building for forest management.
- Chiapas has enacted climate change legislation that provides a foundation for developing a statewide REDD+ strategy, and also could provide basis to link with CA.
- Chiapas state authorities have elaborated a climate action plan with REDD+ reference levels, and now are drafting a REDD+ strategy.
- The recently passed national climate change law (Ley General de Cambio Climático) recognizes the importance of state REDD+ programs, and state authority to implement economic mechanisms to mitigate climate change.



Remaining Challenges for REDD Program Development in Chiapas, Mexico

- **Aligning commitments** - Aligning Chiapas' commitments to reduce GHG emissions from deforestation with Mexico's national and international commitments
- **Institutions** - Establishing REDD+ institutional arrangements, including project nesting
- **MRV / Registration / Issuance** - Design of a clear pathway by which to register REDD+ projects, monitor and verify emission reductions, and issue and retire emission reduction certificates
- **REDD Plan** - Development of a statewide REDD+ plan with policies and financial mechanisms to redirect the ranching, agricultural and logging activities that are the main drivers of deforestation and forest degradation to alternative economic activities and practices
- **Legal Framework** - Development of a clear legal framework to link Chiapas' REDD program formally to CA's evolving GHG cap-and-trade program. Ultimately, this could be the most difficult challenging issue!

Key Insights

- CA has adopted the nation's most comprehensive state GHG mitigation programs and comprehensive GHG emissions cap-and-trade program.
- The program allows entities to use offsets to meet up to 8% of their annual compliance obligation. This is equal to more than 70% of the total reductions to be achieved by the cap-and-trade program.
- 4 initial offset compliance protocols have been adopted by ARB and more are expected to be adopted in the future
- CA program allows international offsets to be used for compliance, but only if they are from linked cap-and-trade programs or from “sectoral” offset programs. Initial focus is on linking with REDD programs with states that have signed MOU with CA, such as Chiapas.
- Chiapas, Mexico is a “first mover” trying to link its REDD program to CA
- While Chiapas has made significant progress towards establishing its REDD program, many challenges remain to be resolved before it will be possible for REDD offsets from Chiapas to be used for compliance in CA.
- It is unlikely before 2015 that REDD offsets from Chiapas will be available to be used in CA for compliance.



Thank You

Adam Diamant

Electric Power Research Institute
Senior Project Manager
Global Climate Research Program
3420 Hillview Avenue
Palo Alto, CA 94304 USA
Tel: 510-260-9105
Email: adiamant@epri.com

Together...Shaping the Future of Electricity