

## California boosts offset limit in cap-and-trade system

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California emitters can use offsets to meet 8 per cent of their compliance obligation.

The offset limit is double what it proposed in the preliminary draft of its climate plan, known as AB 32.

The California Air Resources Board (Carb) released the final draft of its climate plan Friday, which seeks to bring greenhouse gases in the state back to 1990 levels by 2020.

The board will vote to adopt the plan at its meeting on 16-17 December this year.

AB 32 would create an economy-wide cap-and-trade scheme, starting in 2012.

It is designed to link to the Western Climate Initiative (WCI) regional carbon trading scheme, a coalition of seven US states and four Canadian provinces.

The regulators are proposing allowing offset projects that are developed using four protocols created by the Climate Action Reserve (CAR), a California-based voluntary offset programme.

The protocols are:

- Livestock protocol versions 1.0 through 3.0,
- Urban forestry protocol versions 1.0 through 1.1
- Ozone depleting substances protocol version 1.0
- Forestry protocol version 2.1

It said offsets developed using these protocols will provide a source of early action offset credits, helping to boost the supply of eligible compliance offset credits available in the short term.

Market players have expressed concern the four protocols are not enough to create offsets to supply the demand for carbon credits in the system.

"We look forward to seeing further protocol development at the ARB (Air Resources Board) as the market anticipates the four proposed protocols will be insufficient in meeting demand projections," said John Battaglia, associate broker at Evolution Markets.

### **Early supply**

CAR estimates the four protocols adopted by the regulators will supply 33 million offsets between 2012 and 2014, and 99 million offsets between 2012 and 2020.

The bulk of the offsets are expected to be generated from the ozone depleting substances protocol.

CAR President Gary Gero said he expects the release of the draft rules to trigger increased interest in its offsets.

"We have already begun to hear from market participants, and we expect to see quick reactions and a significant increase in activity in our programme," said Gero.

### **Eligibility**

Offsets will be considered eligible if the emissions reductions they represent have occurred between 1 January 2005 and 31 December 2014.

They also have to come from projects that were started before 1 January 2012.

The board is recommending allowing offset credits for projects located in US, Canada and Mexico.

Developers were concerned the staff would allow only California-based offsets, severely restricting supply.

### **National scope**

“Although staff encourages offset projects to be developed in California, it recognises out-of-state projects will expand the scope of the programme to allow for more low-cost GHG reduction possibilities,” it said.

Offset credits from projects located outside of North America may also be used for compliance if they are issued by an outside programme that is approved by the board.

It added the board staff may in future use protocols from other voluntary offset programmes to issue offset credits.

However, it added it is not currently considering approving other programmes.

### **Election**

AB 32 is under threat from Proposition 23, a public referendum that would suspend the climate plan until the unemployment rate in California falls to 5.5 per cent for one year. The unemployment rate is currently more than 12 per cent.

Californians will vote on the ballot initiative on 2 November.

Battaglia said he expects to see an uptick in pre-compliance buying among speculators and compliance entities if Proposition 23 fails.

"Leading up to the election we have witnessed increased buying activity of those offset types already identified by ARB," he said.

"This regulation should provide the necessary information for compliance entities to begin hedging in the pre-compliance market."

### **Redd**

The board is also proposing a framework for including sector-based offset credits from subnational programmes in developing countries.

The board proposes establishing a market for forest carbon offset credits from reducing emissions from deforestation and forest degradation (Redd).

Redd is likely to be the first type of sector-based crediting programme that will be brought to the board for consideration, it said.

The board anticipates a limited number of sector-based programmes will be approved in the near term.

The staff proposes limiting the number of sector-based offset credits allowed in the California compliance market to 25 per cent of the overall offset limit in the first and second compliance periods, and to 50 per cent in the third compliance period.

*Adds quotes, information on Proposition 23*

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