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CALIFORNIA JUST APPROVED THE TROPICAL FOREST STANDARD—WHAT HAPPENS NEXT?

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September 19 was an exciting day in Sacramento, as the California Air Resources Board voted to endorse the California Tropical Forest Standard. That decision, following more than ten years of design, consultation, and debate, approves the set of rules that tropical states would need to follow in order to someday sell carbon credits from reducing emissions from deforestation into California's carbon market.

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Supporters of the Tropical Forest Standard attend a hearing of the California Air Resources Board on Sept. 19 in Sacramento

The Standard sets a high bar for environmental integrity to ensure credits benefit the climate, and requires participating jurisdictions to include Indigenous peoples and local communities in decision-making through a landmark set of Guiding Principles. Crucially, ARB's decision to approve the Standard doesn't allow offset sales yet; that would require another future decision.

The Standard has the potential to channel hundreds of millions of dollars toward protecting forests, supporting sustainable development and preventing climate change. For that potential to materialize, California should approve the state's international offset provision, monitor and oversee the use of the Standard, and explore complementary measures for reducing emissions from deforestation. Tropical states and provinces should reduce deforestation, claim emission reductions, and offer them for sale. And other countries, states, and companies seeking carbon credits should make advance market commitments and partner with tropical jurisdictions to help them achieve the high bar set by the Standard.

What California should do

Approve offsets. The biggest question now is when—or even if—the Air Resources Board will proceed to allowing offsets from tropical forest states that meet the Standard to trade in the California carbon market. One Board Member cautioned that approving a new type of offset would be a separate and lengthy process, which has rarely happened since the beginning of the cap-and-trade program.

William Boyd of the Governors' Climate and Forests (GCF) Task Force doesn't think it will happen any time soon.

But even if ARB doesn't approve tropical forest offsets right away, there is still value in maintaining the option of introducing a new source of low-cost emission reductions to prevent spikes in electricity prices as California's emissions inexorably ramp down toward an 80% greenhouse gas reduction target by 2050. If and when tropical forest offsets do materialize, they will be competing in California's carbon market against other types of out-of-state offsets, rather than emission reductions by in-state polluters. That's because the amount of out-of-state offsets that regulated companies can use to meet their compliance obligations is limited to 2-4% per year of total emissions.

Monitor and oversee. The other ball in ARB's court is monitoring and oversight, not just of carbon emissions and reductions but of tropical states' forest conservation programs more generally. The Board's decision to endorse the Standard includes vigorous and proactive monitoring of its use. The scope of monitoring is broad, and includes information from jurisdictions using the Standard, the GCF Task Force, the Global Committee of Indigenous Peoples and Local Communities of the GCF Task Force, as well as academics, organizations, and individuals. As the Standard is put into practice and the Board learns from its use, its design can be tweaked in a version 2, or version 3.

Explore complementary measures. The approval of the California Tropical Forest Standard opens the door for other California government agencies to follow ARB in taking complementary measures to address climate-changing emissions from tropical deforestation. Governor Gavin Newsom recently instructed California state pension funds to align their investments with climate goals, shortly after CalPERS signed onto a statement of investors holding more than $16 trillion in assets requesting companies eliminate deforestation from their supply chains. A legislative bill requiring deforestation-free procurement by state contractors recently failed in the state Senate.

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EII National Program Coordinator for Brazil, Monica de los Rios, speaking before the California Air Resources Board on Sept. 19

Keep reducing deforestation. The Brazilian states of Acre and Mato Grosso, along with other states and provinces in the GCF Task Force, have reduced deforestation in the face of long odds, or have committed to doing so. The endorsement of the Standard helps tropical jurisdictions stay the course by providing a political signal that their achievements will be recognized by California, if not yet rewarded with income from sellable credits. By providing certainty about the features of a program that could (eventually) result in carbon payments, the endorsed Standard helps tropical states

maintain stability in their deforestation-reduction programs in the face of shifting domestic political winds—a point made by our colleague Monica de los Rios, who was involved in the design of California's program when she worked for the Government of Acre.

Claim emission reductions and offer them for sale. As tropical states and provinces reduce deforestation, they can use the California Tropical Forest Standard to measure and claim emission reductions and show that their forest conservation programs are consistent with the highest international standards. A few jurisdictions' successful achievement of the Standard might help alleviate critics' fears, and build momentum toward acceptance in California's program.

Whether jurisdictions aim to meet the Standard will depend on how much financial support they can expect to receive. Conceivably, states and provinces producing credits following the rules of the Standard could earn payments not just from regulated companies in California, but from other markets, investors, or donors too. Which brings us to…

What other countries, states, and companies seeking carbon credits should do

Advance market commitments. One of the most important developments will be what other potential sources of demand for emission reductions do next. This could include other US states, Canadian provinces, or even other countries that establish California-style cap-and-trade programs. While such regions must of course reduce emissions domestically, buying credits from tropical forests can help them meet more ambitious climate targets more quickly. These governments should signal to California that they would like to allow tropical forest carbon credits approved under California's Standard.

The advantage of buying tropical forest credits certified by California, relative to other jurisdictional-level standards such as the FCPF Carbon Fund; the private Verra; and the new philanthropy-backed ART-TREES, is the legitimacy of a standard that is government-backed and overseen, designed for a regulatory market in consultation with tropical state governments and Indigenous peoples.

Demand could also come from private companies seeking carbon neutrality in part by buying tropical forest carbon credits. Of these, a large and notable potential source of demand is from airlines, who have pledged "carbon neutral growth" on international flights after 2021, both through reducing emissions in their own operations and through offsets. This group also includes companies in California, many of which are small, seeking to go carbon neutral decades faster than required by law.

Since credits verified through the Standard aren't available yet, buyers should make advance market commitments, signaling their intention to buy if and when they become available.

Partner with jurisdictions. Companies should also partner with tropical forest jurisdictions to help them slow deforestation in advance of verification under the Standard. Such partnerships could take a variety of forms. Companies could help fund jurisdictions' forest conservation programs as investors, with investments that could be repaid in credits if verification of emission reductions is achieved. Companies could invest in forest-compatible low-emission rural development, such as climate-smart agricultural systems, Indigenous and local community enterprises, or aquaculture. Or, buyers of agricultural commodities could preferentially source their products from jurisdictions endeavoring to meet the Standard. To date, only a few such public-private partnerships have emerged, even for jurisdictions that have succeeded in curbing deforestation; more are needed.

Fulfilling the potential of the California Tropical Forest Standard

In a best-case scenario, the Standard has the potential to channel more than $1 billion in finance over the next decade toward protecting forests, supporting sustainable development, and preventing climate change. How rapidly this potential is fulfilled will depend on the mutually reinforcing actions taken by the government of California, tropical forest jurisdictions, and by governments and companies around the world.