



Testimony of the Offset Quality Initiative to the California Air Resources Board on the Integration of Greenhouse Gas Offsets under AB 32

April 17, 2008

Introduction

The Offset Quality Initiative (OQI) is a collaborative, consensus-based, effort that brings together the collective resources and expertise of its non-profit member organizations: The Climate Trust, California Climate Action Registry, Environmental Resources Trust, Greenhouse Gas Experts Network, Pew Center on Global Climate Change, and the Climate Group.

The objectives of the OQI are:

- Establish, clearly articulate, and promote the core principles that ensure quality with regard to greenhouse gas emission offsets, and promote the consistent and appropriate application of those principles in emerging climate change policies and regulations.
- Develop and promote consensus policy positions for the optimal integration and treatment of greenhouse gas offsets in current and future state, regional and national climate change policy.
- Educate stakeholders on the opportunities and challenges presented by the integration of greenhouse gas offsets into regulatory and voluntary climate change mitigation strategies.
- Serve as a source of credible information on greenhouse gas offsets based on the diverse collective knowledge and experience of the Offset Quality Initiative members.
- Promote innovation in the greenhouse gas offset market and provide information and guidance on best practices and policies.

The Contribution of Greenhouse Gas Offsets

Given the scale and scope of greenhouse gas emissions reductions necessary every available reduction mechanism available globally will be vital in achieving the steep reductions needed to avert the worst impacts of global climate change. In the United States, federal-level regulation of greenhouse gas emissions is expected within the next several years. The Offset Quality Initiative believes that project-based emission reductions, including offsets, will be critically important in achieving emission reductions in the most efficient and cost-effective manner. Greenhouse gas offsets are an important

component to effecting the economy-wide transformation necessary to reduce fossil fuel consumption to a sustainable level.

Advantages of Including Offsets

The Offset Quality Initiative supports the integration and use of high quality greenhouse gas offsets under AB 32 in California. Greenhouse gas offsets can be an efficient way to achieve large scale greenhouse gas emissions reductions and transition towards a low-carbon economy. Cap and trade is one important policy mechanism and including offsets in an integrated cap and trade system brings several important advantages:

1. Greenhouse gas offsets serve an important cost containment role in a market-based greenhouse gas reduction program. By allowing regulated entities to meet their compliance obligations through a variety of emissions reduction options, adverse economic impacts can be moderated.
2. Greenhouse gas offsets can stimulate and capture emissions reduction opportunities in sectors not covered by or not amenable to a traditional cap. Important emissions reduction opportunities exist in sectors that offsets may be able to capture at a lower cost than an emission's cap or direct regulation.
3. Greenhouse gas offsets can stimulate emissions reduction activities and early action in the beginning years of a greenhouse gas reduction regime, driving critical infrastructural and behavioral changes.
4. Greenhouse gas offsets stimulate the market to seek out and take advantage of the lowest cost reduction opportunities first, resulting in the most economically efficient distribution of reduction efforts and mitigation funding.
5. Greenhouse gas offsets are an important means of sharing technology and sustainable economic development strategies with the developing world. The Offset Quality Initiative is a strong proponent of the principle of common yet differentiated responsibility, and believes that offsets are a critical component of addressing this principle.

Considerations for Incorporating Greenhouse Gas Offsets into Policy

The Offset Quality Initiative believes that regulatory programs that incorporate greenhouse gas offsets should be designed with the following key considerations:

1. **Environmental Integrity:** Environmental integrity—defined as the achievement of real, permanent, measured reductions below business as usual atmospheric concentrations of global warming gases—should be the primary objective of any greenhouse gas offset policy.
2. **Broad Greenhouse Gas Inclusion:** U.S. greenhouse gas regulation should at a minimum cover all six categories of global warming gases identified by the Intergovernmental Panel on Climate Change (IPCC): carbon dioxide (CO₂), methane (CH₄), nitrous oxide (N₂O), perfluorocarbons (PFCs), hydrofluorocarbons (HFCs) and sulphur hexafluoride (SF₆).

3. **Linkage:** Where possible and practical, emerging regulatory regimes should be designed to be linked to the extent possible with other existing and emerging regimes, both domestically and internationally (as long as those regimes have high environmental integrity). In particular, greenhouse gas reduction policy should build on and enable linkage with the international frameworks already in place.
4. **Transparency:** The standards and processes governing the application of any offset mechanism should be well defined in regulation and developed and implemented in an open and transparent manner.
5. **Adaptive Regulation:** New greenhouse gas reduction regimes should be flexible and comprehensive, allowing for the market to adapt to changes in climate science. Regularly spaced review and adjustment periods should be established to make changes to policy and regulation without creating avoidable uncertainties for investors.
6. **Conservativeness:** Quantification and additionality assessments should err on the side of greater conservativeness in the issuance of greenhouse gas offset credit.
7. **Broad Sector Coverage:** An offset mechanism should be designed to take advantage of a wide variety of emission reduction opportunities in un-capped sectors.
8. **Addition of New Project Types:** For new or innovative project types, offset program design should allow the development of new standards or project-specific baseline methodologies and additionality tests for the evaluation and consideration for incorporation into the regime on an ongoing basis.
9. **Standards-Based:** A standards-based approach should include baseline and additionality determinations that are made using detailed, pre-established protocols to the greatest extent possible. Standardized methodologies should be consistent, yet responsive to regional and case-specific differences. The project evaluation process should be streamlined as much as possible to prevent a bottleneck of projects under review.
10. **Not Double Counted:** Only one ton of greenhouse gas offsets shall be created by one ton of greenhouse gas reductions and shall be counted only once towards a greenhouse gas reduction goal or requirement.

Geographic Scope

In order to achieve the most efficient emissions reduction opportunities first, regulations should not place limits on the location of offset projects based solely on geography. Because greenhouse gases accumulate in the atmosphere at a global level, the location of a qualified reduction is immaterial to its impact on atmospheric concentrations of greenhouse gases. However, the OQI recognizes that there are important local impacts of greenhouse gas offsets projects that should be considered when crafting regulation. Regulation should be designed to ensure that these non-greenhouse gas considerations are adequately addressed.

Quantitative Limits

From a strictly environmental and economic perspective there is no rationale for limiting emissions reduction credits eligible to meet emissions reduction compliance obligations, as long as those credit is issued from qualified sources of emissions reductions. The Offset Quality Initiative recognizes the concerns regarding the incentivization of innovation and technology transformation in capped sectors. However, the establishment of rigorous and conservative quality criteria for greenhouse gas reduction mechanisms under climate change mitigation policy should serve as a sufficient limiter of greenhouse gas offsets available to regulated entities. Stringent offset quality criteria, particularly robust additionality and quantification criteria, will serve to screen out projects that are not resulting in above business as usual reductions, and should serve as a natural limiter on the number and type of compliance eligible offsets credits available in the market.

We recognize that there are challenges imposed through the incorporation of greenhouse gas offsets in climate change mitigation policy, but believe that these challenges can be addressed through careful and thoughtful policy design. To this end, the Offset Quality Initiative is in the process of developing a detailed discussion document regarding key considerations for the incorporation of project-based greenhouse gas reductions into emerging policy. We look forward to sharing this with the California Air Resources Board and other stakeholders.

For additional information visit: www.offsetqualityinitiative.org