



## Less Is More:

# The Benefits of Limiting Global Warming Offsets

### California Climate Choices

As individuals, businesses, and governments look for ways to reduce their global warming pollution, many are exploring the concept of “offsets,” in which an emitter pays others to reduce their emissions and gets credit for the avoided emissions. Ideally, the purchase of a global warming offset results in a reduction or avoidance of global warming emissions somewhere else. Offset purchases fall into two categories:

**Voluntary offsets**—Individuals and businesses can voluntarily buy offsets from dozens of companies in the United States and around the world. Depending on the offset type, voluntary offsets may be a good way for individuals to contribute to lowering global warming emissions. There are currently no commonly accepted standards or regulations in place for assuring the veracity and permanence of these types of offsets, although independent reviews of voluntary offsets are available.<sup>1</sup>

**Compliance offsets**—Offsets can be built into mandatory emissions reduction programs, such as the Kyoto Protocol, the European Trading Scheme, and the Regional Greenhouse Gas Initiative (RGGI) in the northeastern United States. All of these programs require the participating countries or entities to meet mandatory global warming emissions limits. For example, electricity generators within RGGI states are obligated to reduce their global warming emissions to 10 percent below 2004 levels by 2020.

In order to reach their respective caps, entities covered under an emissions reduction program are allowed to purchase a certain amount of offsets from projects outside of their capped sectors. Under RGGI, for instance, electricity generators are allowed to

purchase offsets from entities outside of the electricity sector to meet approximately 50 percent of their required reductions, or 3.3 percent of their total emissions. Only certain offsets qualify, and they must meet specific environmental criteria.

#### OFFSETS' ROLE IN STATE CLIMATE POLICY

Since the 2006 passage of AB 32, California's landmark Global Warming Solutions Act, the California Air Resources Board (CARB) has begun developing a package of regulations to reduce California's global warming emissions to 1990 levels by 2020 (about a 29 percent reduction from business as usual).

As part of this package, CARB is considering adopting a “cap-and-trade” system to reduce global warming pollution. A cap-and-trade system would establish a declining cap on global warming pollution in the state and then divide the remaining pollution into permits, or “allowances,” each equivalent to one ton of pollution. The state would distribute the permits to emitters through an auction or other means; emitters would be free to buy and sell these permits.

CARB is considering whether to allow the capped emitters to buy offsets to meet all or some of their emissions reduction obligations, instead of requiring them to make emissions cuts directly or through trading allowances with other emitters in capped sectors.

Allowing some offsets into a California cap-and-trade system may provide several benefits. For example, sectors that are difficult to cap or regulate, such as private forestry or agriculture, could be allowed to participate in the state's

**CARB should limit the level of offsets allowed in any future cap-and-trade system to a small fraction of required emissions reductions, and should ensure that offsets occur within uncapped sectors in California or other regions that have adopted strong global warming caps.**

emissions reduction program by producing global warming reductions that could be sold to capped sectors as offsets. Limited offsets may also allow CARB to “test-drive” the rules and procedures necessary for ensuring that offsets will truly be of high quality and generate emissions reductions that would not have occurred otherwise. Lessons learned from the California offsets experience may be applied to the international offsets market as it develops and matures.

However, there are many reasons to limit the level of offsets allowed in a California cap and trade system.

#### BENEFITS OF LIMITING OFFSETS

**Clean technology development.** Limited offsets may increase demand for carbon emission allowances, thus helping to maintain a robust carbon allowance price. This in turn should increase the profitability of currently available low-carbon energy technologies and encourage the development of new clean technologies.

Not only will California benefit from this increased investment in green technology for the state's highest-emitting sectors like electricity and transportation,

but the entire world can also benefit as this clean technology is exported. Limiting offsets can thus help enable California businesses to capture a larger share of the rapidly growing global market for clean technologies.

The increased investment in emissions reductions efforts in the electricity and transportation sectors should also help lower the future cost of global warming solutions.

**Economic Growth.** AB 32 instructs CARB to design global warming emissions reduction measures in such a way as to maximize environmental and economic co-benefits for California.<sup>4</sup> Recent economic models from the University of California at Berkeley suggest that allowing unlimited offsets in a California cap-and-trade program would have an economic cost because they would delay productive investments in more efficient state-based technologies that could save consumers and businesses money. The analysis also suggests that a cap-and-trade program that prohibits or limits the use of offsets *increases* economic growth in the state as compared with a program that allows unlimited offsets.<sup>5</sup>

**Co-benefits.** While reducing global warming pollution has valuable benefits for our future climate, it may also provide many other important environmental co-benefits. If electricity providers, oil and gas companies, and automakers are required to directly reduce the global warming pollution they produce, Californians will reap the benefits of related decreases in conventional smog-forming and toxic air pollutants. Improved air quality will in turn lead to improved public health, lower health care costs, and improved worker productivity and student performance.



**Limiting offsets in California would lead to decreased global warming emissions and would allow Californians to reap the co-benefit of better air quality.**

If California's global warming emitters are allowed to keep polluting and simply buy credits for emissions reductions happening elsewhere in the world—in effect outsourcing their reductions—Californians will lose out on local air quality and other co-benefits, including the improved energy security that will follow from less reliance on imported oil and gas.

The California Climate Action Team estimates that in the process of implementing a package of state-based global warming emissions reduction policies that nearly reach the state's 2020 target, California will save more than \$6.5 billion by simultaneously re-

ducing smog-forming and toxic air pollutants.<sup>6</sup> The more global warming reductions we can make directly in California, the more we benefit from cleaner air.

**The challenge of monitoring and verifying offsets.** Any regulations adopted as part of AB 32 must ensure that resulting global warming emissions reductions are real, permanent, quantifiable, verifiable, and enforceable by CARB.<sup>2</sup> The governor's AB 32 Market Advisory Committee, comprised of experts from across the United States and Europe, warned that, "depending on the size and scope of the [cap-and-trade] program, and the scope of potential offsets, the number of staff needed to implement an effective offset monitoring program could conceivably be larger than the staff needed to run the cap-and-trade program itself."<sup>3</sup>

**A LONG-TERM CLIMATE SOLUTION**

Reaching the 2020 climate goal is only an interim step toward the state's ultimate goal of reducing global warming pollution 80 percent below 1990 levels by 2050. In order to meet this longer-term goal, investments in clean energy and transportation infrastructure must be made as soon as possible. Limiting offsets will help keep California on the path toward realizing this long-term goal.

ENDNOTES

- 1 For example, see Trexler Climate and Energy Services. 2006. A consumer's guide to retail carbon offset providers. Prepared for Clean Air Cool Planet. December. Online at [www.cleanair-coolplanet.org/ConsumersGuideToCarbonOffsets.pdf](http://www.cleanair-coolplanet.org/ConsumersGuideToCarbonOffsets.pdf).
- 2 State of California. California Global Warming Solutions Act of 2006: Greenhouse gas emissions reductions. In California Health and Safety Code, Division 25.5, Part 4, Section 38562(d)(1).
- 3 California Air Resources Board Market Advisory Committee. 2007. Recommendations for designing a greenhouse gas cap-and-trade system for California. June 30. Available online at [www.climatechange.ca.gov/documents/2007-06-29\\_MAC\\_FINAL\\_REPORT.PDF](http://www.climatechange.ca.gov/documents/2007-06-29_MAC_FINAL_REPORT.PDF).
- 4 State of California. California Global Warming Solutions Act of 2006: Findings and declarations. In California Health and Safety Code, Division 25.5, Part 1, Chapter 2, Section 38501(h).
- 5 California Climate Action Team Economics Subgroup. 2007. Updated Macroeconomic analysis of climate strategies presented in the March 2006 Climate Action Team Report. Final Draft. October 15.
- 6 Ibid.

An electronic version of this fact sheet is available on the UCS website at [www.climatechoices.org](http://www.climatechoices.org).



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