

**Quantity and Quality Criteria for Offsets Under the WCI
International Rivers submission to the WCI Offset Committee
and the Cap Setting and Allowance Distribution (CSAD) Committee**

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International Rivers provides the following comments regarding the Offset Limit White Paper and the overall offsets protocol as proposed in the Working Plan.

International Rivers is in a unique position to offer comments on the WCI's offset program due to our having closely monitored the development and implementation of the Clean Development Mechanism (CDM), by far the world's largest offset scheme, over the past decade. Our CDM work has included reading and submitting comments on numerous project applications (Project Design Documents), commenting on proposed methodologies and procedures, attending as observers CDM Executive Board (EB) meetings, communications and discussions with EB and methodology panel members and secretariat staff, discussions with carbon brokers and consultants and other market participants, as well as working with community and environmental groups in developing countries concerned with individual projects.

Our work has led us to the conclusion that offsets are inherently problematic, particularly because of the need to determine additionality.¹ This requires knowing counterfactuals (what would have happened had the project not been built) that cannot in reality be known. Project developers have strong incentives to make claims on additionality and baselines that are skewed in their own favor. Meanwhile regulators and third-party certifiers have strong incentives to give developers' claims the benefit of the doubt for a number of reasons, including that they are under financial and/or political pressure for the system to "work" and therefore generate large amounts of offsets. Our experience shows that independent observers who challenge developers' claims (with counterclaims that are just as hard to "prove" as developers' claims) are unlikely to have a strong influence on project approval decisions. These inherent unknowables and political/financial pressures make it likely that offsets systems will generate large numbers of credits that do not represent emission reductions.

The use of offsets delays the transformation of our energy systems that are essential to meet the major long-term emissions reductions that climate science demands. Rather than acting as a "cost-containment mechanism," the short-term use of substantial volumes of offsets would require the Western US and Canada to make major and costly jumps later on in reducing emissions. Substantial use of offsets would also seriously reduce the "co-benefits" of a declining carbon emissions cap in the Western region such as promoting green jobs, making the state a

¹ See: McCully, P. (2008) "The Great Carbon Offset Swindle," in Pottinger, L. (ed.) *Bad Deal for the Planet*, International Rivers, Berkeley, p.7; "Stanford Study May Stir Debate On Limiting Costs In Climate Bills," *Carbon Control News* (carboncontrolnews.com), posted 7 March, 2008; Schneider, L. (2007) "Is the CDM Fulfilling its Environmental and Sustainable Development Objectives? An Evaluation of the CDM and Options for Improvement," report prepared for WWF by Öko-Institut, 5 November; GAO November 2008 report.

global leader in clean energy technologies, improving California's energy security, protecting consumers from the impact of fossil fuel price spikes, and reducing air pollution.

For these above reasons and others we believe that offsets should not be used for compliance within the WCI. However, if the WCI Offset Committee is determined to allow the amount of offsets currently prescribed within the WCI Scoping Plan, these should be strictly limited and subject to strong quality criteria, as proposed in California's AB1404. We make the following recommendations on offset quantity and quality:

- *Offsets should be limited to no more than 10% of emissions reductions:* California Assemblymembers Kevin de León (D-Los Angeles), Manuel Pérez (D-Coachella), and Wilmer Amina Carter (D-Rialto) have introduced bill AB1404, which would limit the use of offsets in California, including by banning CDM credits. AB1404 is co-sponsored by the Union of Concerned Scientists and State Building & Construction Trades Council and supported by a broad alliance of environmental, labor, public health and clean energy organizations, including International Rivers. UCS has shown that the US households and businesses can have significant cost-savings with stricter energy efficiency regulations while maintaining only 10% offsets within their emissions reductions.
- *CDM projects should be excluded:* The CDM has a poor track record when it comes to additionality. Also, a number of projects with adverse environmental and social impacts have been awarded carbon credits, including large hydropower projects, which comprise one-quarter of the projects in the CDM pipeline.² Due to these problems, the CDM should be excluded from any regional offsetting program.
- *Incorporate co-benefits and minimizing negative effects as offset criteria:* One of the main criticisms of the CDM is that it has supported projects with negative, and sometimes severe, human and environmental harms. While many of these damaging projects are non-additional — examples include Xiaoxi Dam in China and Allain Duhangan Dam in India, among others³ — and therefore the harm would have occurred regardless of CDM involvement, CDM support for these projects does provide a “greenwashing” benefit to project developers and reward them financially for destructive projects. Any new international offsetting program should avoid project types that risk high negative impacts and should give preference to projects with positive co-benefits such as community- or household-scale biogas, and small-scale renewables.
- *Include public participation and disclosure of information as offset criteria:* Experience with the CDM shows that it is important to maintain transparency in any regional offsetting program. This includes the timely public disclosure of offset project documents, allowing for public comments on proposed methodologies, projects, and credit issuance, and requiring regulators to explain why comments were or were not taken into account. Public comments can also be an important source of information for offsetting regulators, especially given the data challenges involved in the calculation of emissions reductions from offsetting projects.
- *Exclude hydropower projects including new dams:* Rivers in the U.S. have been seriously impacted by dam construction. Fortunately, some of this damage is now starting to be

² Lea, T. (2008) “Xiaoxi and Xiaogushan CDM Hydropower Projects: Report from a Field Trip,” International Rivers; “Comments Submitted on CDM Hydro Projects,” http://internationalrivers.org/cdm_comments/date

³ Haya, B. (2008) “The CDM's Hydro Hall of Shame,” <http://internationalrivers.org/en/node/2837>

reversed by dam removals. It would be hypocritical to restore rivers in California and concurrently support river destruction abroad through offsets. Large hydropower dams (i.e. greater than 10 MW according to the definition most commonly used by the international small hydro industry) should be excluded from international offset programs, because hydropower projects are not additional — it is a mature technology with over a century of development and is well established wherever there are hydropower resources. Other good reasons to exclude large dams from offset programs are because of their negative environmental and social impacts, the greenhouse gas emissions they can generate,⁴ and the difficulty of assessing full public participation in many developing countries.

- *The WCI Offset and CSAD Committees should be adequately staffed and bear all regulatory responsibilities:* International Rivers has observed numerous instances of poor quality verification by auditors of CDM projects.⁵ These include the failure to identify false data contained in the CDM application documents, the failure to research easily available additional information that is contrary to developers' claims, and the acceptance of weak additionality arguments. To avoid the conflicts of interest by third-party auditors, auditors should be hired randomly or via anonymous bidding by the state or province's regulatory body, such as the California Air Resources Board. This would prevent verifiers from providing positive verifications in order to be rehired by the project developer. The regulatory body under the WCI should also do random spot check audits of validator work and impose meaningful sanctions in the case of unacceptable validator performance. Project developers should cover the costs of verification by paying into a pool. They should also implement and be responsible for all ex-post additionality testing.

We acknowledge and admire the amount of thought and effort that the WCI Offset and CSAD committees' staff have put into the offset quantity and quality discussions. A clear lesson we can learn from experience with the CDM is that the inclusion of offsets would undermine the environmental integrity of state and regional cap-and-trade programs.

Thank you.



Patrick McCully
Executive Director
International Rivers
patrick@internationalrivers.org

⁴ "Reservoir Emissions," <http://internationalrivers.org/en/global-warming/reservoir-emissions>

⁵ Schneider, L. (2007) "Is the CDM Fulfilling its Environmental and Sustainable Development Objectives? An Evaluation of the CDM and Options for Improvement," report prepared for WWF by Öko-Institut, 5 November; Haya, B. (2009) "Measuring emissions against an alternative future: fundamental flaws in the structure of the Kyoto Protocol's Clean Development Mechanism (CDM)," presented at the IARU International Scientific Congress on Climate Change, Copenhagen.