

# Offsets Undermine Climate Legislation

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## Offsets in House-passed legislation

The American Clean Energy and Security Act (ACES), H.R. 2454, passed by the House of Representatives in June 2009, provides a maximum of two billion tons of offsets per year for U.S. capped entities to use in lieu of reducing their own emissions.<sup>1</sup> This means that offsets effectively increase maximum annual pollution permits by 2 billion tons (cap + 2 billion). The Congressional Budget Office (CBO) estimates that ACES will only begin to reduce emissions in 2018 because of projected offset usage. This is too little, too late for our climate-constrained world.

## Recommendations for Senate climate legislation

- No offsets or, at maximum, limit their use to 10% of the cap;
- Deep domestic greenhouse gas reductions, consistent with science;
- Provision of dedicated funds for carbon-sequestering agriculture and forestry practices;
- International offsets should not serve as a replacement for the United States' mitigation and financial obligations to developing countries.

## What are international offsets?

International offsets allow U.S. industries covered by a legislated cap on greenhouse gas emissions to emit these gases beyond the cap in exchange for reducing emissions in developing countries. Theoretically these offsets reduce the cost of achieving global emissions reductions since it's assumed to be cheaper to cut pollution in developing countries than in developed countries.

In practice, though, the track record of offsets programs is poor. Rather than reducing emissions, offsets are actually providing a pathway for an increase in global emissions. Many of the projects approved for offset credits would have happened anyway and don't represent real emissions reductions.

Furthermore, because offsets allow U.S. capped entities to be above the cap for many years (negating domestic reductions implied by the cap), offsets slow development and deployment of low-carbon technologies. *This, in turn, will slow the creation of green jobs and the green economy.* The longer we delay action in the United States, the more difficult and expensive it will be to make reductions in the future.

**Offsets do not guarantee emission reductions.** It is impossible to know if an offset project is real and "additional." The concept of offsets depends on the ability to give accurate answers to unanswerable questions. Whether a project is additional depends on whether or not reductions would have taken place without the funding obtained through offsets. Further, devising how many offset credits to grant a project depends on a hypothetical baseline of emissions based on the absence of the project. Dr. David Victor of Stanford University estimates that between one- and two-thirds of projects under the Clean Development Mechanism—the largest international offset program in the world—"do not represent actual emissions cuts."<sup>2</sup>

<sup>1</sup> Note: There is some dispute as to the statutory limit of offsets in ACES. See "EPA Analysis of H.R. 2454," 6/23/09, page 37. [http://energycommerce.house.gov/Press\\_111/20090623/hr2454\\_epaanalysis2.pdf](http://energycommerce.house.gov/Press_111/20090623/hr2454_epaanalysis2.pdf)

<sup>2</sup> John Vidal, "Billions Wasted on UN Climate Programme: Energy Firms Routinely Abusing Carbon Offset Fund, US Studies Claim," *The Guardian*, May 26, 2008. <http://www.guardian.co.uk/environment/2008/may/26/climatechange.greenpolitics>

### Offsets delay emission reductions in the United States.

Instead of reducing U.S. emissions, ACES offset provisions will allow U.S. emissions to increase for an additional nine to twenty years, relative to today. According to CBO data,<sup>3</sup> offsets used in combination with the banking of allowances would allow U.S. emissions to rise along a business as usual path until 2018.<sup>4</sup> If all available offsets under ACES are used, U.S. emissions from capped sources could rise along a business as usual path until 2029.<sup>5</sup>

**The world's biggest carbon offsets market is failing.** The Clean Development Mechanism (CDM) was established under the United Nations Kyoto Protocol, ostensibly to reduce the costs of cutting greenhouse gas emissions in industrialized countries and to promote sustainable development in developing countries. The CDM has failed to meet either of these goals and is undermining the effectiveness of the Kyoto Protocol in an expensive and inefficient manner.

### Offsets dramatically increase risk in carbon markets.

U.S. legislation that includes offsets would likely establish a carbon trading system that could top \$2 trillion—creating the largest derivatives market in the world.<sup>6</sup> Carbon offset markets pose the risk of “subprime carbon”—risky carbon credits based on uncompleted or poor quality offset projects. Subprime carbon credits may fail to reduce greenhouse gases and, like subprime mortgages, could collapse in value. Yet, they are already being securitized and resold in secondary markets.<sup>7</sup>

**International forest offsets are especially risky.** Forest carbon stocks are notoriously difficult to measure and few—if any—tropical forest countries currently have the capacity to enact adequate measurement systems. Moreover, forest carbon sequestration is inherently impermanent and highly vulnerable not only to natural disturbances, like forest fires, but also to political and economic volatility. Avoided deforestation offset credits have not been included in the CDM due to the problems of impermanence, leakage (where efforts to reduce emissions in one place shift emissions to another location or uncapped sector), and technical constraints in monitoring forest-based emissions.

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<sup>3</sup> “Congressional Budget Office Cost Estimate: H.R. 2454 American Clean Energy and Security Act of 2009,” CBO, June 5, 2009. <http://www.cbo.gov/ftpdocs/102xx/doc10262/hr2454.pdf>

<sup>4</sup> Jesse Jenkins, “Climate Bill Analysis, Part 12: CBO Projects Waxman-Markey Would Cut Cumulative Emissions by Just 2% through 2020,” Breakthrough Institute, June 15, 2009. [http://thebreakthrough.org/blog/2009/06/climate\\_bill\\_analysis\\_part\\_xii.shtml](http://thebreakthrough.org/blog/2009/06/climate_bill_analysis_part_xii.shtml)

<sup>5</sup> Michael Wara, Stanford Law School, “US Fossil Fuel GHG Emissions Aren’t Required to Fall Until 2030 Under ACESA,” July 2009. [http://www.fcnl.org/energy/pdfs/Wara\\_ACES\\_Offsets.pdf](http://www.fcnl.org/energy/pdfs/Wara_ACES_Offsets.pdf)

<sup>6</sup> John Stephenson, “Climate Change, Observations on the Potential Role of Carbon Offsets in Climate Change Legislation,” GAO, March 5, 2009. <http://www.gao.gov/new.items/d09456t.pdf>

<sup>7</sup> Michelle Chan, “Subprime Carbon? Re-Thinking the Worlds Largest New Derivatives Market,” Friends of the Earth, March 2009. <http://www.foe.org/pdf/SubprimeCarbonReport.pdf>