OFFSETS vs GGRF

How the offset market mobilizes investment in emission reductions today

The current California cap-and-trade program sends a long-term price signal for verified reductions. The offset market uses this signal to gain access to money to build projects that proposed alternatives cannot. There are current discussions about whether an alternative mechanism, RFP-style grants, in which the Greenhouse Gas Reduction Fund (GGRF) makes payments to "offset-like" projects, could produce similar environmental benefits or achieve similar results. The table below describes why it cannot.

Requirement to mobilize investment	How the offset market does this:	How the "GGRF alternative" does not:
Send a long-term price signal that can be reliably anticipated	With an extension of cap-and-trade that includes the use of offsets, the offset market will invest private capital in projects that will produce verified emission reductions through 2030. Investors and lenders can finance projects immediately based on the knowledge that a long-term market exists for the resulting credits. The ten-year price signal supports the long development timelines required to organize and develop emission reduction projects that, by definition, face barriers to implementation.	GGRF funding, by comparison, is distributed to sectors through annual allocations from the legislature. The legislature and Governor appropriate auction proceeds from the GGRF to state agencies and programs through the budget process. The quantity, timing, and structure of that funding is uncertain—subject to both auction results and political processes. Private finance therefore must wait until specific projects and programs have been awarded funding from the GGRF. Without the offset market intact, it cannot be assumed that project developers will be available with the scale, expertise and capability needed when/if GGRF funding is appropriated. GGRF funding cycles often provide only months to assemble a project and apply for funds, while project pipeline development requires substantial lead time and investment in identifying and moving projects towards implementation. Funding is normally distributed to specific projects and must be spent within the fiscal year. While offsets provide year-on-year funding to ensure carbon sinks are maintained, GGRF initiatives like the Healthy Soils Initiative will not be able to ensure practices are maintained beyond three years.
Make payments for verified emission reductions ("pay-for-performance")	Offset revenues are only received by projects after reductions have been monitored, verified, reviewed by a registry and subsequently reviewed by the ARB. Investors in these projects must carry the risk that their project will actually deliver the verified emission reductions. There is, therefore, a significant incentive to achieve verified reductions.	Under GGRF model, funding is most commonly distributed as an upfront grant. It's California's money, then, that carries the risk that the emission reductions anticipated at the time of project launch may never occur. If GGRF funds need to actually produce results, then a pay-for-performance system such as the existing offsets program keeps that incentive intact and the risk on investors' money, not California's.
Pay for the most cost-effective emission reductions regardless of the sector	Regardless of what sector the reductions occur in, offset funding will flow to the most cost-effective reductions available. Offset funding relies upon a market to determine which sectors hold the most promising opportunities.	Under an RFP-style grant program from GGRF funds, the legislature would annually determine the type, location and funding amount available for different sectors. This mechanism would not maximize the available emission reductions at the lowest cost. It would predetermine the types of projects at the expense of other available reduction opportunities.

Why leveraging private finance matters

A GGRF grant program addressed at offsets-like projects cannot immediately mobilize private investment the way the long-term price signal from the offset market can. Yet, as identified by ARB's proposed scoping plan, investments in working lands are critical to generating the reductions to avoid catastrophic climate change. The current cap-and-trade mechanism that includes the use of offsets offers an effective pathway to incent this investment; the forest carbon offset protocol alone has led to the listing or registration of over 5 million acres nationwide. The Air Resources Board has carefully crafted the offset mechanism and demonstrated its ability to leverage private finance in uncapped sectors with the greatest promise to generate real and cost-effective reductions. Redesigning GGRF to play this role will face regulatory, political and practical hurdles that will undermine its ability to drive investment into emission reduction projects today.

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