The Business Council for Sustainable Energy
An Energy Agenda for the 21st Century
www.bcse.org
1620 Eye Street NW, Suite 501, Washington, DC 20006 Phone: 202-785-0507 Fax: 202-785-0514

Business Council for Sustainable Energy

Recommendations for a Federal Greenhouse Gas Offset Program

September 2007

The ability of entities to generate and purchase emissions offsets[1] is an essential design feature of a market-based approach to reducing greenhouse gas (GHG) emissions. While various clean technologies, such as renewable energy and energy efficiency, are currently available and should be pursued within potentially regulated sectors, an offset program provides incentives for and added financial value to project activities that reduce GHG emissions outside regulated sectors and activities. This in turn widens the scope of environmental benefits and lowers the overall costs of compliance for society as a whole.

Under an offset program, regulated entities are permitted to help meet their compliance obligation by purchasing GHG emission reduction credits generated from project activities that fall outside the scope of an emissions cap. This flexibility provides regulated entities with the ability to invest in the most cost-effective emission reduction activities. While the Council encourages regulated entities to undertake internal emission reduction activities early and to the greatest extent possible, we recognize offset purchases as an important complementary tool to help companies manage compliance costs and promote GHG reductions throughout a wider scope of the economy.

Facilitating emissions reductions that are cost-effective and efficient can help promote technological innovation, encourage participation of non-capped sectors and activities, lower costs for consumers, and generate immediate environmental benefits. For this reason, offset programs have been included in existing climate change programs inside and outside the U.S., and should be valued as an important design feature of federal climate change legislation.

As with other aspects of market-based initiatives to address climate change, the details and structure of a federal offset program will play a critical role in determining successful implementation, as well as achieving desired GHG emission reductions. The Council urges adoption of an economy-wide, market-based approach that provides real and measurable emission reductions through clean energy technology deployment and innovation.

The Business Council for Sustainable Energy offers the following recommendations for consideration with respect to the design of a federal offset program:

Emissions offsets must be real[2], additional[3], permanent[4], independently verifiable[5], enforceable[6], measurable[7], and transparent[8] – Ensuring the environmental integrity of offsets is essential to meeting desired emissions reductions levels. Verifiable and surplus offsets must be the standard for program integrity. In addition, independent, third-party monitoring and verification requirements must be in place to ensure that GHG emissions reductions are delivered.

Promote broad sector and activity eligibility for offsets – To the widest extent possible, all sectors and activities not covered by an emissions cap should be eligible to generate offsets insofar as they meet the criteria established above. This will encourage the most significant and immediate reductions in GHG emissions, especially in initial phases before some uncovered sectors and activities are incorporated under a cap.

Permit broad use of emissions offsets – Offsets provide incentives for GHG emission reduction activities outside capped sectors and activities, expanding the reach of the program and minimizing

overall compliance costs. The Council recommends eligibility for broad use of offsets to achieve compliance under a federal climate change program, and to promote a robust and liquid carbon offset market for a wide range of activities that offer readily available, low cost GHG emission reductions.

Reward early action to reduce greenhouse gas emissions – Rewarding the efforts of entities that purchase offsets prior to implementation of a federal program sends clear market signals to facilitate development of projects that reduce GHG emissions, and serves as an incentive for entities to reduce emissions as soon as possible. Companies will have the opportunity to learn from such activities and prepare themselves for federally mandated GHG regulations. Early action can be recognized by adjusting the emissions baseline of regulated entities to reflect offset purchases or by granting allowances under the regulatory program to recognize early offset purchases. Offsets that should be considered as eligible for early action credit include those that are recognized by state and regional compliance programs, as well as those that meet an established minimum standard, as defined by Congress. Only offsets that are real, additional, permanent, independently verifiable, enforceable, measurable and transparent should be recognized for early action credit.

Promote linkages with other domestic and international offset programs, and permit fungible use of eligible offsets generated from within such programs – A federal market-based approach to addressing climate change should be linked to other domestic and international market-based programs that incorporate offsets, provided they are of high quality and integrity. Addressing climate change is a global challenge and emission reduction activities that occur within and outside the U.S. generate valuable environmental benefits. Fungibility of carbon offsets is a crucial component of international emissions trading. Compliance costs can substantially be further reduced if regulated entities are given access to offset credits that are compatible with domestic credits from within other market-based programs around the globe, thereby benefiting from valuable compliance flexibility and access to lowest-cost emission reductions.

Utilize a standards-based approach for offset projects while allowing for case-by-case review of projects without pre-approved methodologies – The Council supports implementation of pre-approved standards for projects and activities that will promote certainty for offset project developers, as well as administrative efficiency, cost effectiveness and transparency within the regulatory system. In addition, the Council also supports the use of performance-based standards, where appropriate, which should require projects or activities to be evaluated by their individual circumstances to ensure additionality. Provisions should be included that from the onset avoid artificial restriction on project activities. Rather, incentives should be provided by allowing for case-by-case review of projects without pre-approved standards to promote technological innovation, emission reductions within new project sectors and activities, and development of new standards for project sectors and activities that may eventually be included. The Council encourages a federal program to draw upon existing work to date within U.S. state and international cap-and-trade programs to develop project baseline methodologies and performance standards.

Employ multiple tests for demonstration of offset "additionality"[9] – The concept of "additionality" is a fundamental underpinning of a credible offset program. The term refers to the determination of whether an emission reduction activity would have occurred in the absence of the offset program, or, according to a business-as-usual scenario. This is an important part of the offset approval process, as offsets must represent real, measurable and surplus emission reductions. There are a variety of factors that have been used to determine offset additionality, such as tests based on current regulations, technology deployment trends and the financial viability[10] of a project or activity, among others. The Council urges the use of multiple additionality tests such as those recommended by the World Resource Institute's Greenhouse Gas Protocol for Project Accounting and the United Nations Framework Convention on Climate Change's (UNFCCC) Tool for the Demonstration and Assessment of Additionality (Version 03).[11]

Utilize standardized emission factors – The factors used to determine the number of emissions offsets generated by an activity can be altered based on the emissions factors used in the review process. To promote consistency and clarity, a standardized emissions factor for domestic- and internationally-generated offsets should be utilized within a federal program.

The Business Council for Sustainable Energy recognizes existing international and domestic offset programs and protocols that serve as valuable examples to inform development of a federal greenhouse gas offset program:

Clean Development Mechanism – The Clean Development Mechanism (CDM) was created under the auspices of the Kyoto Protocol as a way to allow industrialized countries which have committed to carbon dioxide emissions reductions to invest in emission-reducing projects in non-industrialized countries. This makes it possible for entities in industrialized nations with significant emissions profiles to achieve reduction targets and lower global carbon emissions at a significantly lower cost than such reductions would be in their home countries. To date, 762 projects have been registered by the CDM executive board, with current reductions over business-as-usual of more than 162 million tons of carbon dioxide annually.

http://unfccc.int/kyoto_protocol/mechanisms/clean_development_mechanism/items/2718.php

The Climate Trust – The Climate Trust is a non-profit organization, chartered in 1997, as part of the Oregon Standard, which caps emissions from new power plants constructed in that state. If a new power plant chooses, it may exceed the emissions cap and pay an amount of money proportional to the emissions surplus into a mitigation fund with The Climate Trust. The Climate Trust invests these funds into projects which avoid, displace or sequester carbon dioxide. To date, The Climate Trust has offset more than 2.7 million metric tons of carbon dioxide, and invested $8.9 million into offset projects such as reforestation, wind energy development, efficiency upgrades and co-generation systems.

http://www.climatetrust.org

World Resources Institute (WRI) and World Business Council for Sustainable Development (WBCSD) Project-Based Protocol – This document is a protocol for quantitatively measuring and reporting greenhouse gas emissions from various types of offset projects. The link provides a description of the protocol and access to the protocol itself.

http://www.ghgprotocol.org/templates/GHG5/layout.asp?MenuID=849

ISO 14064 International Standard for Greenhouse Gases – Developed during a four-year process coordinated by the International Organization for Standardization which involved over 175 experts representing 45 countries, this document is a three-part international standard which addresses quantifying, monitoring and reporting of greenhouse gas emissions and reductions at the organizational and project level. In addition, the standard provides a section with guidance on conducting validation and verification of greenhouse gas assertions, which is directly applicable to verifying emission reductions from offset projects. The verification approaches identified in ISO 14064 were derived from established best practices in financial and environmental auditing and thereby provide a strong foundation for development the verification and certification protocols that would be critical for a federal greenhouse gas offsets program.

http://195.141.59.67/iso/en/commcentre/pressreleases/2006/Ref994.html

[1] The act of reducing or avoiding greenhouse gas (GHG) emissions in one place in order to "offset" GHG emissions occurring somewhere else. Carbon offsets are intended to take advantage of the range in costs and practicalities of achieving GHG emissions reductions by sector or activity, and geography. Offsets can be generally separated into two categories: 1) sequestration, and 2) emissions reductions. Sequestration projects pull carbon out of the atmosphere and store it in "sinks." Examples include forestry, tillage, and geological projects. Emission reduction projects either reduce or destroy GHGs in a variety of ways, including fuel switch, energy efficiency/renewable energy, industrial gas destruction, and flaring of agricultural or landfill gas.

[2] Offsets represent actual reductions in GHG emissions.

[3] Emissions reductions are "additional" if they occurred because of the presence of incentives associated with the existence of GHG markets, voluntary or mandatory. A variety of stakeholders have proposed many different additionality "tests," but at its root, demonstrating the additionality of a carbon offset means showing that the emissions reductions being used as offsets are not "business as usual," or baseline.

[4] Reductions should be non-reversible, or backed by guarantees if they are reversed.

[5] Project performance in terms of emission reductions should be easily monitored and verifiable by an independent third-party.

[6] Reductions should be backed by contract, legal instruments, and official registration requirements that define their creation, provide for transparency, and ensure exclusive ownership.

[7] Reductions should be quantifiable, and a reasonable baseline for comparison should be identifiable and measurable.

[8] Information regarding the process of generating, certifying, verifying, and selling offsets should be available and easy to understand.

[9] As noted in endnote #3, additionality generally refers to a situation where a project results in emissions reductions above those that would have occurred in the absence of the project activity.

[10] With regard to financial additionality tests, they should not be the only way of proving additionality, nor should it be weighted more than other additionality tests. In our experience, financial additionality tests alone deter good projects and weaken the credibility and market power of offset programs. Further, financial additionality tests are subject to gaming and cannot reasonably account for market behavior.

[11] See the WRI Greenhouse Gas Protocol for Project Accounting at: http://www.ghgprotocol.org/templates/GHG5/layout.asp?MenuID=849 and the UNFCCC Tool for the Demonstration and Assessment of Additionality at: http://cdm.unfccc.int/methodologies/PAmethodologies/AdditionalityTools/Additionality_tool.pdf