



The Role of International Offsets in North American Climate Policy: Challenges and Opportunities

Presentation to:
Woodrow Wilson Institute Cross Border
Forum on Energy Issues
October 29, 2009

Alexia Kelly

Senior Associate

Climate and Energy Program

akelly@wri.org

(202) 729-7888



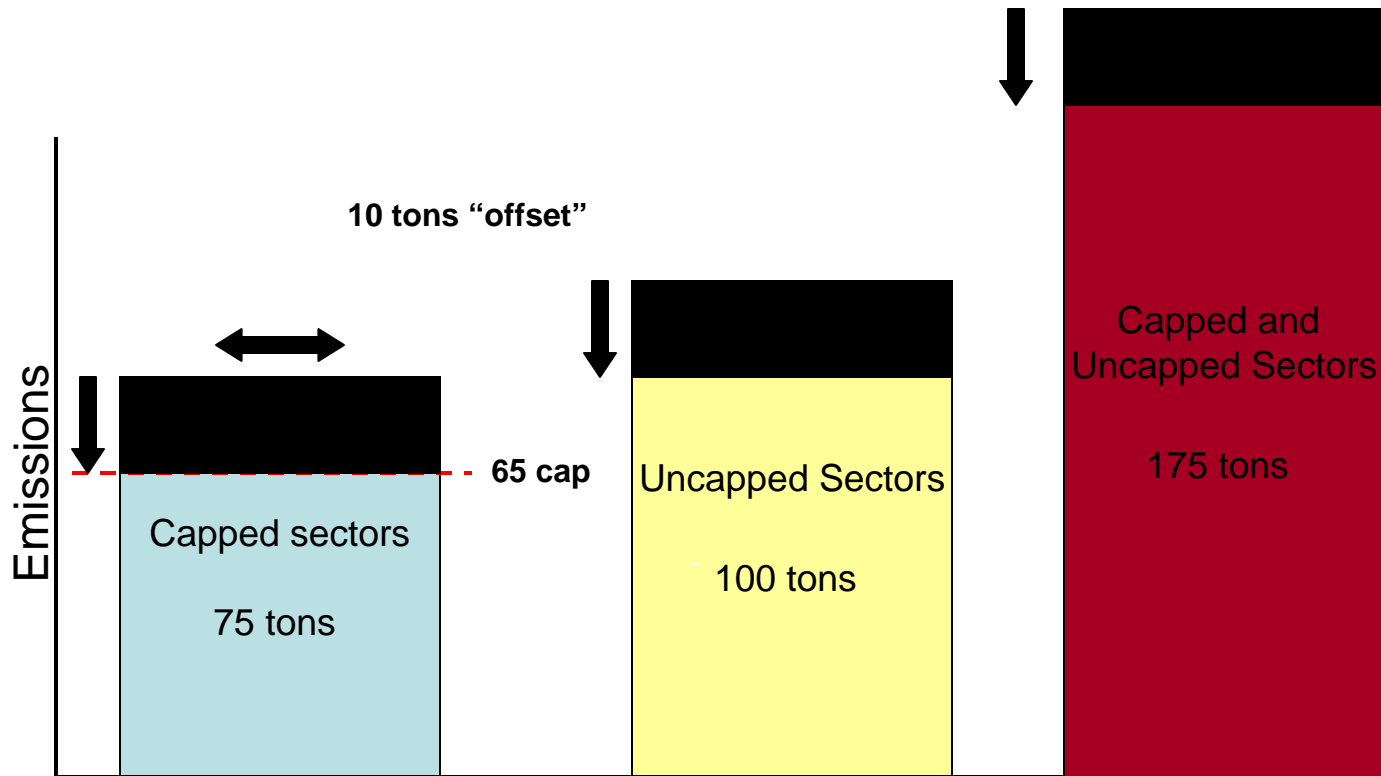
Offsets Defined

- Defined as: a reduction or avoidance of GHG emissions, or an increase in sequestration due to an activity implemented specifically to compensate for emissions occurring elsewhere
- A policy-driven commodity generated from GHG reduction projects that meet a specific set of requirements

Key Criteria

- Additionality
- Clear Ownership
- Realistic Baselines
- Accurate Quantification
- Address Leakage
- Address Permanence
- Ongoing Monitoring
- Independent Verification
- Registration and Retirement

Offsets and Cap and Trade



Emissions with Offsets System

Advantages of Offsets in Cap-and-Trade Policy

- Cost containment
- Emission reductions in uncapped sectors
- Can drive new tech in uncapped sectors
- Can provide technology and knowledge transfer to developing countries
- Environmental and economic co-benefits

Disadvantages of Offsets in Cap-and-Trade Policy

- Can compromise emission reduction goals
- Can be difficult and costly to administer
- If not limited, can result in few capped sector reductions and slow technology transformation
- Can favor certain sectors over others
- Can provide disincentive for uncapped sectors to eventually accept emissions cap

Status of U.S. Legislation

House

- Passed the American Clean Energy Security Act of 2009 (HR 2454) on June 26th, 2009
- Comprehensive climate change and energy bill

Senate

- Kerry Boxer Bill (S1733) introduced by Environment and Public Works Committee (EPW)
- EPW mark up and vote goal of before Thanksgiving
- ~6 other Committees of Jurisdiction

Offset Limits in HR 2454 and S1733

	System Limit	Firm Level Limit	Domestic/ international Split	Discount
HR 2454	2 billion	Varies by year (based on equation, e.g. 30% in 2013, ~65% in 2050)	50% Domestic 50% International (can adjust to 25% domestic/ 75% international if less than 900 m tons available)	1.25 discount applied to international offsets after 2016
S1733	2 billion	Varies by year (based on ratio of firm's total compliance obligation)	75% Domestic 25% International (can adjust to 63% international/ 37% domestic)	1.25 discount applied to international offsets after 2016

Eligible Offset Categories*

	US Domestic	US International	UNFCCC	Bilateral Sectoral	International Reduced Deforestation
HR 2454	+	+	+	+	+
S1733	+		+	+	+

* All subject to affirmative determination by Administrator of U.S. offset program (TBD: President/EPA/USDA)

HR 2454 Offset Timeline

Avoided Deforestation Credits-Sub-national and Project (2012-2017)

Avoided Deforestation Credits-Sub-national and Project in LDC (2012-2025)

Avoided Deforestation Credits-National (2012-2050)

Project-Based Credits from Approved Int. Program if no sectoral (2016-2050)

Project-Based Credits from Approved Int. Program (2012-2050 or until sectoral agreement in place)

Sectoral Credits (2012-2050)

International EPA Project-Based Credits (2012-2050)

Domestic EPA Project-Based Credits (2012-2050)

Domestic USDA Agriculture and Forestry Credits (2011-2050)

Early Offset Supply (2009-2013)

2009 2010 2012 2014 2016 2018 2020 2025 2030 2040 2050

Key Questions

- What's the right number of offsets in the system?
- What role should the government play in technology transformation?
- What can we learn from existing offset programs in both the U.S. and Canada?
- Is there a future role for international harmonization of offset infrastructure?



Thank You!

Alexia Kelly
Senior Associate,
Climate and Energy Program
akelly@wri.org
202-729-7888

The World Resources Institute

www.wri.org