

Integrating offset projects into a cap-and-trade program lowers costs, creates new benefits for the Nation's agriculture and forestry sectors, spurs technological innovation, and creates opportunities for international engagement.

Offsets Projects in a Cap-and-Trade Program

Coalition on Emissions Reductions (CERP) Introduction to Emissions Offsets

Integrating offset projects into a cap-and-trade program helps lower the costs of such a program, create new benefits for the Nation's agriculture and forestry sectors, spur technological innovation, and provide for international engagement.

What Are Offsets?

A well designed cap-and-trade system reaches a great proportion of emission sources, but not all emissions. Such a program typically excludes *emissions from farms, forests, landfills, coal mines, and sources outside the United States*. However, these sources can still be brought into a cap-and-trade system by enabling companies regulated under the emissions cap to choose to use reductions in greenhouse gas emissions from these uncapped sources as offsets to meet their own allowance obligations.

Achieving the same environmental benefits at lower costs

The effect of a ton of greenhouse gas emitted from a capped facility is the same as a ton emitted by a non-capped source—so offsets preserve the same level of emissions reductions, called the emissions cap. Because it often costs less to achieve reductions at a non-capped source, offsets achieve the emissions cap at lower cost. *In this way, allowing offsets makes it possible to meet the same overall emissions cap with the same environmental benefits at far lower cost.*

All major studies show cost containment from offsets

Every major study of climate change legislation has shown that allowing the use of offsets achieves significant *cost containment*.

For example, EPA's study of the Waxman-Markey bill found that emission allowance prices would increase by 89% if international offsets were excluded from the U.S. program. Offsets also help spur innovation and action in uncapped sectors, and allow time for technology development in capped sectors.

Benefits of offsets to rural communities

Offset projects will have *large benefits to communities* across the United States, *particularly rural, agricultural communities*. For these communities, offsets mean new jobs, new technology and reduced air pollution. Engaging these communities in offset projects—such as altered tillage and animal waste projects—creates a triple dividend: reduced greenhouse gas emissions, a new source of income, and environmental benefits.

Offsets as a means of international engagement

An offset program can *provide new incentives for countries to reduce their emissions* and halt destruction of tropical forests.

The importance of rigorous standards and agency review

Offsets used in cap-and-trade program must meet *rigorous environmental standards* and undergo review by a regulatory agency. They must achieve reductions additional to those that would have occurred without the project; (i.e., projects do not receive credit for reductions that would have happened anyway). Offset programs must be designed to carefully balance environmental integrity and the administrative efficiency needed to create a healthy offset market.

Offset projects that meet rigorous standards for environmental integrity should be a central element of any cap-and-trade program.

Types of Projects

- Landfills: reduction of methane emissions
- Coal mines: reduction of methane emissions
- Farms: soil sequestration, restoration of grasslands, management of agricultural methane
- Natural gas pipelines: reduction of fugitive methane emissions from natural gas pipelines
- Forests: afforestation, reforestation, forest management, and avoided deforestation

Benefits of Offsets

- Cost Containment
- Time for Technology Development
- Innovation and Action in Unregulated Sectors
- Opportunities for Rural and Agricultural Communities
- International Engagement

Cap-and-Trade Without Offsets

Without offsets, all of the needed emission reductions can only come from the capped sectors, meaning that the emissions cap is met at high cost.

Cap-and-Trade With Offsets

With offsets, emission reductions can come from capped and uncapped sectors, meaning that the emissions cap is met at much lower cost.

In addition, with clear rules and the right incentives, offset projects can produce emission reductions almost immediately. Transitioning to a low-carbon economy will require time and investment to develop and deploy new technologies. By producing low-cost emission reductions in the near term, offset projects provide an affordable bridge to a low-carbon future.