

Offsets Offer Impact, Real Carbon Reductions in Natural Working Lands

By Sean Penrith, Executive Director for The Climate Trust

The discussions around Oregon’s proposed cap and invest bill ([SB1070](#)), slated for the short session in 2018, continue unabated and common [misperceptions](#) abound. To the credit of the sponsors of the bill—Representative Helm and Senator Dembrow—they have engendered the important dialog on elements in the bill between diverse stakeholders by way of the various working groups they have established.

The Climate Trust was invited to participate on the Agricultural, Forests, Fisheries, Rural Communities, and Tribes [working group](#), to review and make recommendations on specific components of a cap and invest program for Oregon. The offset mechanism contained in SB1070 has stimulated a robust discussion. Environmental justice proponents have submitted [comments](#) calling for the prohibition of offsets. I attempt to outline points that address four questions posed to the working group that include offset limits, project location guidelines, aggregation, and protocol development while weaving in our general support for a well constructed offset mechanism for our state.

The “*Guiding Principles and Recommendations for Policy and Funding Decisions*” [report](#), compiled by the Climate Justice Working Group, has been circulating with environmental justice advocates suggesting that it may help inform the policy discussions currently underway in the state. I read the report with interest. The forestry section of the paper addressed financing opportunities, pointing out that, “*The state must seek funding opportunities from private and public sources to make meaningful climate adaptation investments. Sectors should implement actions that can simultaneously reduce GHG emissions and also make vulnerable communities more resilient.*” It struck me that that the offset mechanism achieves that very laudable aim; it attracts private capital to create meaningful climate investments that achieve real greenhouse gas reductions, while simultaneously adding resiliency in terms of improved [co-benefits](#).

The chair of the Senate Environment & Natural Resources committee, Senator Michael Dembrow, summarized the intent of the cap and invest bill, [calling out](#) that SB1070 included cost controls and the harnessing of market forces, the ability to link to the Western Climate Initiative (WCI), and offered opportunities for investments, especially in rural economies. Again, check! The offset mechanism is by design a cost containment provision and allows for inter-jurisdiction trading of verified offset credits between partners in the WCI. Further, the offset market attracts private capital to carbon reduction



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offset projects (diary digesters, forest protection, grassland conservation, etc.) that tend to be primarily located in rural regions. We need this. There are just not sufficient public funds to drive the reductions we need, especially in our natural working lands.

We are strong advocates that the percentage of compliance obligation that can be met by offsets remain at the 8% limit set in SB1070. Certainty in significant, long-term demand for offsets will mobilize private capital into land-based greenhouse gas reduction projects. A reduced offset limit sends a signal of uncertainty to private investors, limiting interest in financing agricultural and forestry emissions reduction. Increasing allowance funding for forest and soil sequestration activities should never be viewed as an equivalent replacement of the offset mechanism. Direct reinvestment of auction revenue is essential, especially for very small or difficult to quantify projects, but cannot match the pace and scale of investment the offset market creates. The offset market can motivate agricultural and forestry greenhouse gas reductions rapidly and at greater scale than auction fund reinvestment alone because it sends a long-term price signal that can be depended upon, makes payments for verified reductions rather than anticipated reductions, and focuses on the most cost-effective reduction opportunities. We have detailed why the offset market leverages more private finance than the programs we have seen from California's Greenhouse Gas Reduction Fund in [this](#) brief. The strong demand for offsets created by an 8% limit is key to leverage private finance to achieve the emission reductions we need from agriculture and forestry.

The intersection of carbon reductions and air quality was hotly debated in California. Their solution was to pass [AB398](#) that extended the cap and trade program to 2030 along with the companion bill [AB167](#) that expressly protects communities from air pollution from both mobile and stationary sources. DEQ's [report](#), "*Considerations for Designing a Cap-and-Trade Program in Oregon*," recognizes this same key issue, pointing out that, "The 'trading' features of the program, which help keep costs of compliance lower, also result in uncertain decline in GHGs and co-pollutants from individual facilities." DEQ does state that they already have long-standing air quality enforcement programs to manage our state's largest source of pollution and that they are undertaking reforms of their air toxics regulations to address public health. I would have to agree that, similar to the conclusion arrived at in California; we should separate out our carbon emission reduction ambitions from the focused efforts of air quality control. In DEQ's words, their existing programs "may be better suited to address sources of localized health concern."

Oregon's cap and invest bill offers some flexibility when it comes to the degree that offsets can be used for compliance. The bill contemplates an offset limit of 'no more than' 8% for covered entities and allows this to be further restricted should it be warranted based on the proximity of the emissions source to an impacted community. There has been some discussion that Oregon must follow California's

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lead and adopt a 4% limit that AB398 calls for post-2020 in order to satisfy linkage requirements. That is not accurate.

Senate Bill 1018 (Committee on Budget and Fiscal Review, Ch. 39, St. 2012) requires a demonstration of stringency before future linkages with California can occur—that "the jurisdiction with which the state agency proposes to link has adopted program requirements for greenhouse gas reductions, including, but not limited to, requirements for offsets, that are equivalent to or stricter than [California's]." These parameters include being real, permanent, quantifiable, verifiable, enforceable and additional, but should not include jurisdictional-specific geographic or numeric criteria. Thus, additional jurisdiction-specific criteria do not impact the "stringency" of other programs. The recent linkage of California's program to Ontario, Canada was not based on the newly introduced restrictions on the program. Potential future partners considering linkage, such as Oregon, should likewise not be subject to the direct environmental benefits provision or lower offset usage provisions of California's AB 398. The key to a successfully linked market-based program is maintaining consistent environmental integrity.

We have a strong interest in enabling smaller landowners to participate in the carbon market based on the passage of SB1070. California's Air Resources Board (ARB) has implemented a number of constraints that limit project aggregation for the California market, a central one being the invalidation rule that delivers the liability to buyers. Oregon is not bound to follow suit. Oregon can support aggregation by avoiding a similar invalidation rule found in California. Offset protocols in the voluntary market that allow for aggregation already exist. The Climate Trust is currently using the Climate Action Reserve grasslands protocol to aggregate three distinct parcels of land in Wallowa County so it can be managed as a single offset project. There are other protocols that also facilitate aggregation among small forest landowners and farmers.

The benefit of allowing aggregation is that it provides access to the offset market for smaller landowners who may be unable to participate individually due to the costs associated with developing and managing an offset project. It is noteworthy that Ontario's offset guidelines [allow](#) for project aggregation. Should SB1070 be implemented, we will see carbon prices for verified offset reductions in the high teens and low twenties range. According to the [evaluation](#) by Greg Latta at the University of Idaho (Forest Economics) over the first ten years of a cap and trade program, forest carbon projects in the Western Cascades would generate between \$667 million and \$1.93 billion of offset credits. This will offer attractive returns to smaller landowners wishing to deliver real emission reductions in return for revenues.

In terms of Oregon's potential for participating in the offset market, we should take note of a recent Stanford [paper](#), "Forest carbon offsets partner climate-change mitigation with conservation." The study

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reviewed existing forest carbon projects that have participated in the California cap and trade market and notes, “The national distribution of projects generally matches the distribution of private forestland in the U.S., with the notable exceptions of Oregon (no projects) and Washington State (one project). Sustainable forest management rules mandated by the offset program are stringent and may reduce the fraction of projects in regions with less stringent versions of such rules.”

There is understandable interest in limiting offset projects to Oregon only. As implementers of Oregon’s [CO2 Standard](#) for new energy facilities over the past 20 years, we at The Climate Trust, have experienced pertinent lessons first hand. Our take is that there is an enormous opportunity to develop suitable offset requirements in Oregon that allow us to take advantage of the broader linked market, as opposed to taking the isolationist approach of Oregon-only projects as some have touted.

Oregon’s forests are eligible to participate in California, Quebec and Ontario’s linked carbon market—but to do so, they must qualify to generate credits under the protocol created by ARB. As the study above alludes to, potential forestry projects in Oregon have had a very difficult time conforming to the “sustainable forest management” criteria required by the protocol, which generally restricts forest management practices to those allowed under California Forest Practice Rules.

As the California-oriented forest protocol demonstrates, when we let other states create the rules, Oregon is left out of an emerging \$5 billion market for carbon sequestration. By moving forward with a cap and trade system, Oregon has an opportunity to draft its own forest protocol to ensure reductions are real, permanent, quantifiable, verifiable, enforceable and additional.

Protocol development under SB1070 should adhere at all times to the environmental integrity of the cap and enable linkage with other jurisdictions. All protocols must ensure offsets are real, quantifiable, permanent, enforceable, additional and verifiable. The good news is that the leading registries in the country have conducted thorough and diligent work in this regard. American Carbon Registry’s (ACR) process for protocol development includes a public comment period and a blind scientific peer review. ACR [details](#) the recommendations for boundary selection, greenhouse gas accounting, and a host of other considerations when designing the offset mechanism and supporting protocols. Climate Action Reserve offers a full [program manual](#) that can be accessed to help inform relevant protocol adoption in Oregon. A task force dedicated to providing guidance to the state in developing and approving offset protocols would go a long way to embracing these best practices and edit them for Oregon benefit.

The largest pall cast by the Clean Development Mechanism (CDM) market resulting from the European Union Emission Trading Schemes (ETS) was on the concept of additionality; the determination that the property of an activity must be additional and beyond business as usual. CDM projects are somewhat

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infamous, proving to be questionably additional. Those lessons have been learned by carbon pricing proponents and program design architects that followed the EU ETS experience.

California has learned from and improved upon its program design with performance standards for assuring additionality. The additionality factor of existing protocols in California was challenged in 2012. In January 2013, the San Francisco Superior Court ruled that the ARB had “used its experience, expertise, and judgment in arriving at the appropriate methodology to determine additionality ... based on extensive research, stakeholder input, public input and fact-based analysis.” This decision was subsequently upheld by the Court of Appeal, which the California Supreme Court let stand. In short, while these issues are nuanced and complex, they have been considered and thoroughly tested. There is no compelling case that the legislature, ARB, and the courts all got it wrong before.

The sponsors of SB1070 are asking the right questions and, from all accounts, paying close attention to the feedback they are receiving. I hope this delivers a solid carbon-pricing program for Oregon and for our WCI partners.

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