

Comments on “Implementing a Quantitative Limit on the Use of Offsets in a Cap-and-Trade Program”

March 23, 2009 stakeholder meeting for AB 32, California Air Resources Board  
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The following two questions relate to the potential use of offsets in California’s cap-and-trade system.

(1) According to Sec. 38505(m) of AB 32, “‘Statewide greenhouse gas emissions’ means the total annual emissions of greenhouse gases in the state ...”. Is ARB’s implementation of AB 32 in any way limited by the stipulation “in the state”?

(2) Would the WCI’s reliance on offsets from other jurisdictions possibly result in a situation in which either (a) other jurisdictions are deterred from adopting GHG regulations of comparable stringency to the WCI’s because low-cost emission reduction opportunities have been monopolized by the WCI, or (b) adoption of comparably stringent regulations by other jurisdictions would result in the WCI being unable to meet its compliance obligations because low-cost reduction options upon which it has become dependent are no longer available?

The concern underlying the second question was voiced by the late Anil Agarwal and Sunita Narain of India’s Centre for Science and Environment, in a 1998 Briefing Paper on the Kyoto Protocol<sup>1</sup>, which stated the following:

If developing countries accept JI [Joint Implementation] then all that they are doing is to let the cheaper carbon dioxide reduction programmes go to industrialised countries. ... it allows current generations in developing countries to sell off cheaper emissions-control options today leaving their future generations straddled with high cost options.

For example, suppose federal climate legislation were adopted based on the WCI regulatory model, and suppose that the U.S. were to achieve its emission goals at a \$10-per-ton marginal cost by employing offsets from India that are secured by long-term contracts and investments. If India were to then adopt GHG regulations of comparable stringency it would have limited access to compliance options costing less than \$10 per ton. If the unavailability of low-cost options deters India from adopting such regulations, then the offsets would not meet the “additionality” criterion. On the other hand, if rules are adopted to guarantee India first rights to low-cost, domestically-sourced compliance credits under its own GHG regulations, then it would not be in the interest of the U.S. for India to adopt such regulations because the U.S. would be denied access to low-cost credits upon which it has become economically dependent. Fundamentally, the use of allowance offsets would only be mutually beneficial to the U.S. and India as long as India does not adopt GHG regulations of comparable stringency to U.S. regulations.

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<sup>1</sup> “The Atmospheric Rights of All People on Earth”  
[ <http://www.cseindia.org/html/eyou/climate/atmospher.htm> ]