

**Quality Criteria for Offsets Under AB32**  
**Comments by International Rivers**  
**21 May 2009**

International Rivers provides the following comments regarding “Criteria for Compliance Offsets in a Cap-and-Trade Program” as presented at the stakeholder workshop on April 28th, 2009.

International Rivers is in a unique position to offer comments on AB32’s offset program due to our having closely monitored the development and implementation of the Clean Development Mechanism (CDM), by far the world’s largest offset scheme, over the past decade. Our CDM work has included reading and submitting comments on numerous project applications (Project Design Documents), commenting on proposed methodologies and procedures, attending as observers CDM Executive Board (EB) meetings, communications and discussions with EB and methodology panel members and secretariat staff, discussions with carbon brokers and consultants and other market participants, as well as working with community and environmental groups in developing countries concerned with individual projects.

Our work has led us to the conclusion that offsets are inherently problematic, particularly because of the need to determine additionality.<sup>1</sup> This requires knowing counterfactuals (what would have happened had the project not been built) that cannot in reality be known. Project developers have strong incentives to make claims on additionality and baselines that are skewed in their own favor. Meanwhile regulators and third-party certifiers have strong incentives to give developers’ claims the benefit of the doubt for a number of reasons, including that they are under financial and/or political pressure for the system to “work” and therefore generate large amounts of offsets. Our experience shows that independent observers who challenge developers’ claims (with counterclaims that are just as hard to “prove” as developers’ “claims”) are unlikely to have a strong influence on project approval decisions. These inherent unknowables and political/financial pressures make it likely that offsets systems will generate large numbers of credits that do not represent emission reductions.

The use of offsets delays the transformation of our energy systems that are essential to meet the major long-term emissions reductions that climate science demands. Rather than acting as a “cost-containment mechanism,” the short-term use of substantial volumes of offsets would require California to make major and costly jumps later on in reducing emissions. Substantial use of offsets would also seriously reduce the “co-benefits” of a declining carbon emissions cap in California such as promoting green jobs, making the state a global leader in clean energy

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<sup>1</sup> See: McCully, P. (2008) “The Great Carbon Offset Swindle,” in Pottinger, L. (ed.) *Bad Deal for the Planet*, International Rivers, Berkeley, p.7; “Stanford Study May Stir Debate On Limiting Costs In Climate Bills,” *Carbon Control News* ([carboncontrolnews.com](http://carboncontrolnews.com)), posted 7 March, 2008; Schneider, L. (2007) “Is the CDM Fulfilling its Environmental and Sustainable Development Objectives? An Evaluation of the CDM and Options for Improvement,” report prepared for WWF by Öko-Institut, 5 November; GAO November 2008 report.

technologies, improving California's energy security, protecting consumers from the impact of fossil fuel price spikes, and reducing air pollution.

For these above reasons and others we believe that offsets should not be used for compliance under AB32. However, if the Air Resources Board is determined to allow the amount of offsets currently prescribed under AB 32, these should be strictly limited and subject to strong quality criteria, as proposed in AB1404. We make the following recommendations on offset quality:

### **Offset Quality Criteria and the CDM**

- *CDM projects should be excluded:* Given the CDM's poor track record in terms of additionality, and environmental and social impacts, including for large hydropower projects that currently compose one-quarter of the CDM pipeline,<sup>2</sup> the CDM should be excluded from California's and any regional offsetting program. Given that as many as 76% of CDM projects were up and running by the time of registration, the CDM clearly fails to meet the quality and additionality criteria set out by ARB.
- *Opt for a standardized or hybrid assessment of additionality:* The investment, barrier and common practice tests used in the CDM additionality tool have all proven to be easily manipulated, due to the subjectivity involved in these assessments. It will be important to use objective criteria to determine project additionality. It is also important to recognize that no additionality screening process will be 100% accurate. The inclusion of non-additional projects in any offsetting program must be recognized and accounted for through conservative baselines or other discounting techniques. ARB's proposals to identify particular technologies that have a high likelihood of being additional and to establish performance baselines for various project types are promising ways forward.
- *Include additional criteria – co-benefits and minimizing negative effects:* One of the main criticisms of the CDM is that it has supported projects with negative, and sometimes severe, human and environmental harms. While many of these damaging projects are non-additional — e.g. Xiaoxi Dam in China, Allain Duhangan Dam in India, etc. — and therefore the harm would have occurred regardless of CDM involvement, CDM support for these projects does provide a “greenwashing” benefit to project developers and reward them financially for destructive projects. Any new international offsetting program should avoid project types that risk high negative impacts and should prefer projects such as community- or household-scale biogas, and small-scale renewables that can have large positive co-benefits.
- *Include additional criteria – public participation and disclosure of information:* Experience with the CDM shows that it is important to maintain transparency in California's or any regional offsetting program. This includes the timely public disclosure of offset project documents, allowing for public comments on proposed methodologies, projects, and credit issuance, and requiring regulators to explain why comments were or were not taken into account. Public comments can also be an important source of information for offsetting regulators, especially given the data challenges involved in the calculation of emissions reductions from offsetting projects.

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<sup>2</sup> Lea, T. (2008) “Xiaoxi and Xiaogushan CDM Hydropower Projects: Report from a Field Trip,” International Rivers; “Comments Submitted on CDM Hydro Projects,” [http://internationalrivers.org/cdm\\_comments/date](http://internationalrivers.org/cdm_comments/date)

- *Exclude hydropower projects including new dams:* Rivers in the U.S. have been seriously impacted by dam construction. Fortunately, some of this damage is now starting to be reversed by dam removals. Californian climate action should not act as an incentive to increase damage to rivers and prevent efforts to restore them. Large hydropower dams (i.e. greater than 10 MW according to the definition most commonly used by the international small hydro industry) should be excluded from international offset programs because of their negative environmental and social impacts, the greenhouse gas emissions they can generate,<sup>3</sup> and the difficulty of assessing full public participation in many developing countries.
- *ARB should be adequately staffed and bear all regulatory responsibilities:* While the April 28 presentation clarified that ARB would not cede enforcement responsibilities of international emissions reductions to host countries, a similar responsibility should belong to ARB regarding third-party verification. International Rivers has observed numerous instances of poor quality verification by auditors of CDM projects.<sup>4</sup> These include the failure to identify false data contained in the CDM application documents, the failure to research easily available additional information that is contrary to developers' claims, and the acceptance of poor quality additionality arguments. To avoid the conflicts of interest by third-party verifiers (where verifiers seek to provide positive verifications in order to be rehired), verifiers should be hired randomly or via anonymous bidding by ARB. ARB should also do random spot check audits of validator work and impose meaningful sanctions in the case of unacceptable validator performance. Project developers should cover the costs of verification by paying into a pool. ARB should also implement and be responsible for all *ex-post* additionality testing.

We acknowledge and admire the amount of thought and effort that the ARB offsets staff have put into the offset quality criteria discussions. A clear lesson we can learn from experience with the CDM is that the inclusion of offsets would undermine the benefits of state and regional cap-and-trade programs including our ability to guarantee real emissions reductions.

Thank you.



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<sup>3</sup> "Reservoir Emissions," <http://internationalrivers.org/en/global-warming/reservoir-emissions>

<sup>4</sup> Schneider, L. (2007) "Is the CDM Fulfilling its Environmental and Sustainable Development Objectives? An Evaluation of the CDM and Options for Improvement," report prepared for WWF by Öko-Institut, 5 November; Haya, B. (2009) "Measuring emissions against an alternative future: fundamental flaws in the structure of the Kyoto Protocol's Clean Development Mechanism (CDM)," presented at the IARU International Scientific Congress on Climate Change, Copenhagen.