

Offset groups call on California to protect offset buyers

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A coalition of five major carbon market lobby groups has asked California officials to change the way they will regulate carbon credits in the state's future carbon market to protect buyers from the risk of purchasing dubious offsets.

In a letter obtained by Point Carbon News, the groups asked the California Air Resources Board (Carb) to change the state's "buyer liability" approach in its cap-and-trade regulations, which would invalidate offset credits if there are discrepancies and require the buyer to replace them, even if he or she is not responsible. This potential liability on the buyer would cause the buyer to apply steep discounts to offset credits or prevent them from buying offsets altogether, the argued, because the buyer would have to "self-insure" each credit. The coalition argued that the potential invalidation of offsets is a key design flaw of the state's carbon market blueprint, which can jeopardise emitters' key tool to contain compliance costs when mandatory carbon caps kick-in in 2012. "The buyer liability rule is contributing to a lack of comfort with the offsets programme among compliance entities and may prevent them from employing this important cost-containment tool," the groups argued in the letter, dated 2 May 2011.

Integrity

They added that they are taking this issue seriously because it affects the "environmental integrity" of the state's cap-and-trade scheme. Some prospective market participants have expressed concern that even one single incident of market manipulation or a transaction of environmentally bogus offsets changing hands could topple the nascent market. California's market implementation process is currently on hold amid a legal challenge by local environmental justice groups who argued that Carb failed to weigh alternatives to cap and trade when tasked with carrying out the state's GHG reduction law. The coalition, which includes the International Emissions Trading Association and the Carbon Markets & Investors Association, proposed an alternative approach in which the market would bear the risk of flawed credits, not buyers or Carb. They proposed the creation of a "buffer pool" of credits, which would act as insurance against any instance of a transaction of bogus credits. "Rather than requiring each compliance entity or other buyer to manage this risk on a project-by-project basis, the proposal effectively has the entire market taxing itself by taking issued credits out of the market in order to create a buffer account that ensures the environmental integrity of the programme," they wrote. The pool of credits would be filled with a certain percentage of credits held back by Carb before it issues credits to an offset project. In the event that Carb determined that a project's documents were not credible, the lobby groups proposed that the regulator should immediately retire credits from the allowance pool to replace those that had been invalidated. If the regulator were to find that the discrepancy stemmed from "willful intent or gross negligence", Carb "would seek to replenish the credits retired from the [pool] from the entity actually responsible for the discrepancy". "Requiring the [pool] to be replenished in this manner will ensure the long-term viability of the [pool] and guard against the moral hazard of lax compliance with the offset programme," they said. At the end of the letter, the groups said that their proposal would not add any administrative burdens to Carb. The letter was signed by: Henry Derwent, president and CEO of the International Emissions Trading Association; Roger Williams, chairman of the Carbon Offset Providers Coalition; Kyle Danish, counsel to the Coalition for Emission Reduction Policy; Catherine Reheis-Boyd, president of the Western States Petroleum Association; Miles Austin, director of the Carbon Markets and Investors Association.

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