



## WESTERN CLIMATE INITIATIVE INVITES COMMENTS ON PROPOSED OFFSET CRITERIA AUGUST 2009

**Introduction**

On July 24, 2009, the Western Climate Initiative (WCI) Offsets Committee released a white paper on various definitions and criteria to determine eligible offsets for the purpose of developing an offset system ("White Paper").

The White Paper is part of a larger WCI 2009/10 Workplan released February 2009 that, among other WCI operational goals, aims to develop the offset definition and criteria that will be recommended to WCI Partner jurisdictions as the basis for implementation of an offset system.

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WCI is a co-operative effort of U.S. states and Canadian provinces to identify policies to reduce GHG emissions, including the design and implementation of a regional cap and trade program. Formed in 2007, WCI now consists of 11 partner states and provinces and 13 additional observers throughout Canada, Mexico and the U.S.

WCI is soliciting stakeholder feedback on the various options for design of an offset system presented in the White Paper. Comments may be submitted [electronically](#) and are due by August 21, 2009.

The Offset Definition and Eligibility Criteria White Paper is available [here](#).

**What is an offset?**

An offset is a "credit" earned by financing another entity's voluntary (uncapped) GHG emissions reduction. Generally, the offset must represent lower GHG emissions than would occur without such support. In a cap and trade system, a regulated entity could, to a limited extent, use purchased offsets to meet its emissions reduction targets. Offsets could be bought, sold and traded through numerous channels.

To determine how other trading schemes define and establish offset criteria, the Offsets Committee examined 11 offset systems<sup>1</sup>. The White Paper discusses:

1. Whether and how to establish an offset definition, including:
  - How to define an offset to provide guidance on how offsets are generated, traded and monitored;
  - How to establish clear offset ownership;

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<sup>1</sup> The offset systems include: Alberta-based Offset Credit System; British Columbia Emission Offset Regulation; California Global Warming Solutions Act of 2006 (AB 32); Clean Development Mechanism (CDM); Gold Standard; ISO 14064-2, 14064-3 and 14065; Offsets Quality Initiative (OQI); Oregon Offset Standard; Regional Greenhouse Gas Initiative (RGGI); Voluntary Carbon Standard (VCS 2007); World Business Council for Sustainable Development and World Resources Institute (WBCSD/WRI) GHG Protocol for Project Accounting.



- What offset protocols should be used throughout the life of a project;
  - Whether offset projects should be confined to certain areas.
2. The importance of defining offset criteria, including that an offset is:
- "Real" – Actual emissions reductions have genuinely taken place
  - "Additional" – Credit is given only for projects that would not otherwise have occurred without an offsets mechanism, i.e. no credit for "business-as-usual" or actions otherwise required by law
  - "Permanent" – GHG removals are maintained for a defined time period
  - "Verifiable" – Detailed reporting is maintained, and project and reporting review is done by an independent third-party
3. Other factors for consideration, including transparency, offset project co-benefits (additional environmental benefits unrelated to GHG reductions) and environmental and social impacts of an offset project.

### Key Areas of Interest

The options discussed in the White Paper matter since these principles will determine:

- how an offset system influenced by WCI proposals works,
- how efficient such an offset system is,
- whether the system delivers GHG reductions in the amounts promised, and
- who stands to gain.

#### *Additionality*

Choices around the criteria to be used to determine whether a GHG reduction or removal is additional and therefore eligible under an offset system will be amongst the most controversial. If too stringent, additionality criteria may prevent even real and verifiable carbon reductions from entering the marketplace as offsets. If too loose, additionality criteria could undermine the integrity of the offset system itself.

The White Paper proposes alternative approaches to setting additionality criteria. These include a project specific approach that would assess each project individually, a general approach that would set performance standards by sector or project type, and various combinations of these approaches.

#### *Ownership*

The ability of an offset system to establish clear ownership of GHG reductions and the resulting offsets is paramount to ensuring that proper credit is given for emission reductions, that an offset is only used once and that a functioning offset market emerges.

The White Paper proposes that a form of documentation other than a contract may be sufficient proof of ownership, and emphasizes the importance of establishing a system for registration and tracking of an offset from generation to end-use.

#### *Permanence*

A critical concern regarding certain types of offsets is the risk of reversal. While an offset may initially reduce emissions, a risk exists that stored GHGs could be released back into the atmosphere as a result of a natural disaster or other causes. For example, GHGs sequestered in a forestry project may be released in the event of a forest fire.

The White Paper proposes two options for ensuring this risk is addressed: (1) to require an upfront commitment in the form of a legally binding instrument prior to the commencement of an offset project; and (2) to require action only if an offset project fails.

#### *Verification*

Verification of reductions or removals from an offset project is important in order to establish confidence in an offset market and encourage participation. The criteria ultimately used to verify an offset will have a significant impact on the strength and success of any offset system.

The options for verification presented in the White Paper include verification by an independent third party, by the Partner jurisdiction for those projects that are within its boundaries or self-certification by the offset project developer.



### Next Steps

The Offset Committee is soliciting stakeholder feedback by August 21, 2009, on the options presented in the White Paper or on other possible options. In addition to general comments, the Committee is seeking response to the following questions:

1. What has been your experience with the offset system examples cited in this paper? What have been the advantages and disadvantages to their approaches?
2. Are the appropriate criteria listed?
3. Does the paper include the appropriate options for each criterion?
4. Are the implications of the options appropriately covered?

Once this feedback is collected and organized, the Offset Committee will issue draft recommendations for stakeholder input in September 2009 with final recommendations expected in December.

### Conclusion

GHG emissions regulations are rapidly evolving throughout North America, and our legal practitioners continue to follow these developments at the state, provincial, regional and federal levels. Because the WCI continues to influence the design and implementation of larger federal and international emissions trading schemes, businesses should consider using this important opportunity to submit public comments regarding definitions and eligibility criteria for the use of offsets.

For further information, please contact the attorney you work with or any one of the following legal professionals:



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