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Early action offset provisions in US bill draw fire

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Market players complain the Senate climate bill's early action offset provisions are restrictive.

The content of the newly-released bill has drawn fire from state-established voluntary offset programmes that say the legislation makes it less certain their carbon credits will be eligible in a federal cap-and-trade scheme.

Many US companies and investors buy voluntary offsets anticipating they will have value in a national mandatory carbon reduction regime.

Purchases of so-called early action pre-compliance offsets drive the bulk of activity in the US voluntary carbon credit market.

"I am a little disappointed at the early action provisions," said Gary Gero, president of the Climate Action Reserve, one of the main US voluntary offset programmes.

"It introduces uncertainty into the market over what programmes will qualify."

American Power Act

The American Power Act (APA), written by Senators John Kerry and Joe Lieberman, would allocate allowances to holders of offsets that were issued from state, local or voluntary offset programmes between 2001 and 2009.

It would be up to the administrator of the federal programme to decide which programmes are eligible.

This is a departure from the House-passed Waxman-Markey and Kerry-Boxer bills, which both said offsets issued by state-established offset programmes would qualify in a federal scheme.

Most carbon market players understood this to include credits issued by the Climate Action Reserve as well as the Regional Greenhouse Gas Initiative (RGGI) for 10 northeastern states.

Carbon credits issued by the Climate Action Reserve, which was set up by the state of California, were seen as the most likely voluntary offset programme to gain fungibility in a federal programme under previous climate bills.

"Not having that certainty over what programmes will qualify chills the offset market and will constrain the supply of offsets at the start of the programme," said Gero.

Positive

Other offset programmes are more upbeat about the early action provisions in Kerry-Lieberman.

Mary Grady, marketing director of the American Carbon Registry (ACR), a voluntary offset programme, said the bill sets clear criteria for qualified early offset schemes.

"We are confident of administrator approval of ACR as a qualified early offset programme," said Grady.

Offset role

Like previous climate bills, offsets play a big role in enabling regulated companies to comply with the future carbon reduction targets.

The APA sets an economy-wide reduction target of 17 per cent below 2005 levels by 2020, which will rise to 83 per cent below the same baseline by 2050.

The legislation allows regulated entities to use up to 1.5 billion domestic and 500 million international offsets for compliance.

Domestic agricultural and forestry carbon credits are expected to make up the bulk of the US offset programme.

Limited market

Observers expect the supply of offsets to be limited in the early years of the programme given the small amount of carbon credits that are currently available.

A Point Carbon research unit analysis found the supply of US offsets in 2009 was only 29 million, with a market value of $74 million. Deals involving credits from the Climate Action Reserve made up 65 per cent of total market value.

Greg Arnold, managing partner of offset developer and investor CE2 Capital, said agricultural sequestration projects would be the largest potential source of credits at the start of the scheme.

“In the early years of the programme, it is going to be tight with respect to creating domestic offsets because agriculture (offset) protocols do not yet exist,” Arnold said.

He added that credits from landfill gas projects, which are currently being done in the voluntary market, are also in limited supply.

Future supply can also eventually be sourced from forestry projects, he added.

“In the meantime, we will have to look to international offsets to fill that gap,” he said.

Small pot, big number of claims

Market participants also point out the number of allowances the bill sets aside to award buyers of early action credits is small relative to the number of entities that could make claims on the set aside pool.

The legislation would allocate approximately 40 million allowances between 2013 and 2015 to holders of US offsets that achieved emission reductions between 2001 and 2009.

Waxman-Markey and Kerry-Boxer set aside a similar sized pool.

The average monetary value of the offsets would be approximately $3.50, according to Point Carbon analysts.

Derek Six, portfolio manager at Environmental Credit Corp., said there could be a potential 700 million tonnes of emission reduction claims made against the set-aside for early action offsets.

“This could be a really large pool of people making claims,” said Six.

Open access

He noted the bill opens up access to the pool from state, local and voluntary offset programmes, as well as entities that have stated GHG reduction goals and have demonstrated GHG reductions.

These entities could include members of the EPA’s Climate Leaders programme, a public-private partnership that works with companies to develop climate change strategies, as well as members of the Climate Registry, said Six.

Others dismissed the notion that a pool of allowances for early action credits is necessary.

“Our belief is that credits we issue are real and should be recognised as such," said Climate Action Reserve's Gero.

"You don’t need to put them in a pool. They should have the same value as any other offsets.”

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