



Good afternoon Chairman Pavley and Members of the Select Committee,

SLIDE 1: My name is Gary Gero and I am the President of the Climate Action Reserve, formerly known as the California Climate Action Registry. It is my privilege to have been invited here today to speak to you about our knowledge and experience with carbon offsets.

The Climate Action Reserve is the largest offsets registry in North America with over 400 offset projects in 44 U.S. states and Mexico. We have issued over 15 million offset credits to date, and we are widely regarded as the most rigorous offsets program anywhere. As an environmental non-profit organization, our goal is to ensure that there is real validity and environmental integrity to the claims of emission reductions associated with offsets.

SLIDE 2: Let me start with a definition so that we are approaching this topic with a common understanding. In general, an offset is a verified emission reduction that is used to mitigate an emission elsewhere. At the Reserve, we impose a variety of tests to ensure the integrity of an offset which I will describe in a moment.

In a regulatory program, an offset certificate may be issued that can be used for compliance if it meets these same tests and if it conforms with the regulator's own program rules.

SLIDE 3: So, let's talk about these tests.

The first is that the emission reduction is REAL. This means that the emission reduction can be quantified to a very high degree of accuracy and that we have consistently applied the principle of conservative accounting. Further, it means that we only provide credit for activities that have actually occurred, not for future projections.

The second test is that the project is ADDITIONAL. 'Additional' means that the emission reduction is not required by law and would not have occurred but for the incentive provided by the carbon market.

The third test is that the project activity and its emission reductions are VERIFIABLE. Here, we impose very prescriptive requirements on how a project is to be assessed so that any independent third party - be it a verification company, a regulatory agency, or the public - can have a common and consistent approach to measuring the emission reductions.

ENFORCEABLE means that there are clear standards for the property rights related to the emission reductions. Not only does this avoid double-counting, but it also identifies a responsible party against which the standards can be enforced.

Finally, emission reductions must be PERMANENT. Because greenhouse gases remain in the atmosphere for a long time, any offset must ensure that its associated emission reductions are removed from the atmosphere for a very long time.

SLIDE 4: It is through offset protocols that these criteria are defined and enforced. A protocol is the comprehensive set of eligibility rules, quantification methodologies, verification standards, and program requirements that we apply to determine whether if a project is eligible and, if so, the amount of offset credits it generates.

To ensure that forest carbon credits are permanent, we have created an insurance buffer pool to physically backstop reversals that result from natural events like fire or pests. Further, we have very strong contractual rights that are recorded against the land deed to require the repayment of forest offset credits if a project violates the protocol.

And, for the protection of forest values, we include requirements such as the use of native species, mixed age classes, and extended rotations.

SLIDE 5: Now let's discuss the role of offsets in market based systems.

First, offsets provide an equivalent decrease in greenhouse gas emissions at a lower cost. Since the cost of compliance with environmental regulation is ultimately passed on to consumers, having a market based system with a sufficient supply of offsets works to minimize the economic impacts to those consumers while still ensuring that our emission reduction targets are achieved.

Offsets also create emission reductions at sources that are hard to regulate or that are not traditionally seen as part of the regulatory system, such as forests and farms. In a market system, these sectors are encouraged to voluntarily reduce emissions by the financial incentive of offsets, rather than being directly regulated. This is important because it brings a much broader segment of our society and our economy into the fight against global climate change.

Offset projects also create other environmental co-benefits. For example, urban trees are known to improve local air quality, reduce the urban heat island effect, and provide storm water retention benefits.

And, the technologies used on offset projects are typically new and innovative, so can be expensive. Offset revenues here can help defray the cost of such technology while simultaneously demonstrating and improving its ability to reduce emissions.

Finally, offsets can be used as the common currency that links market-based programs together, as long as the rules are consistently rigorous.

That said, there are risks and concerns about offsets. The first that comes to mind for us, as a program administrator, is the challenge of screening out business as usual activities so that the offsets themselves are truly additional. This is why we are so rigorous in setting performance standards, why we update those standards regularly, and why we are consistently conservative in our accounting.

Also, all regulatory systems – whether traditional command and control or market-based – require strong oversight and enforcement. But, financial markets can be complex so will require knowledgeable and experienced regulators who have effective oversight authority and broad enforcement powers. We welcome this oversight.

SLIDE 6: Let's talk about how an offset program is built so that it can ensure integrity.

The first screen we use to ensure integrity is to only consider writing offset protocols where sufficient data exist to have a high degree of confidence that the project activity can meet the key tests I have described.

The second component is to ensure those rules are actually followed. To do that, we spend a great deal of time training and testing verifiers and providing very close oversight of their work to ensure quality and accuracy.

And third, we have designed a public registry system that provides clarity of ownership to the emission reductions, limits owning credits on behalf of third parties, and contains security systems to prevent fraud or other abuses.

SLIDE 7: Finally, let me briefly describe the four Climate Action Reserve protocols that have been adopted by the ARB for use in the compliance program.

First, the Forest Project Protocol provides credits for offset projects in three categories: reforestation, avoided conversion of forests, and improved forest management – and it requires that forests increase and maintain carbon storage over the long term.

Similarly, the ARB has adopted our Urban Forest Protocol that provides rules for the crediting of urban tree planting programs.

The Livestock Project Protocol provides credit at farms when the methane generated by animal waste is captured and destroyed rather than emitted into the atmosphere.

And finally, the ARB has adopted our Ozone Depleting Substances Protocol that provides credits for the collection and destruction of the very potent greenhouse gases found in appliances and foams. By using the offset market, there is now a strong financial incentive to destroy these gases in an incinerator rather than put them back into older equipment where they leak back into the atmosphere.

SLIDE 8: I will conclude simply by saying that offsets can and do provide real environmental and economic benefits but only when they are generated under a robust set of rules and with rigorous oversight to ensure their integrity.

I thank you for inviting me here today and thank you for your attention. I would be pleased to answer any questions you may have.