Carbon Offsets: Potential vs Reality

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The potential of carbon offsets

- **What are they?**

Party A gets credits for reducing GHGs, which can be sold to allow **Party B** to increase its emissions (or not reduce them as fast).

- **What is the benefit of offsets?**

Reduces the economy-wide costs of achieving GHG reduction targets.

- **Why?**
  – Gains from trade
  – Co-benefits

Reality

Highly controversial – why so

- Benefits are contingent on 'integrity' = credits must represent **real** and **additional** abatement

- Evidence suggests they rarely do (generally>70% low integrity) = GGAS, CDM, JI, California, Verra (VCS), ERF

Why do they fail?

Scheme administrators are incentivised to focus on supply, not integrity

<u>Result:</u> They forget the basic rule of offsets

<u>Rule</u>: carbon credits should only be issued where high confidence they represent real and additional abatement

<u>Why?:</u> Offsets are a **<u>high risk environmental instrument</u>**:

- Easy to get it wrong and issue low integrity credits because estimating abatement relative to a counterfactual is hard

- If credits have low integrity and they are used by polluters to offset emissions, it increases emissions & thereby results in worse outcomes

Other key factors

<u>Adverse selection</u>: difficulty in restricting participation to 'additional activities'

Adverse selection = circumstances where asymmetry of information prompts selective participation to the detriment of objectives
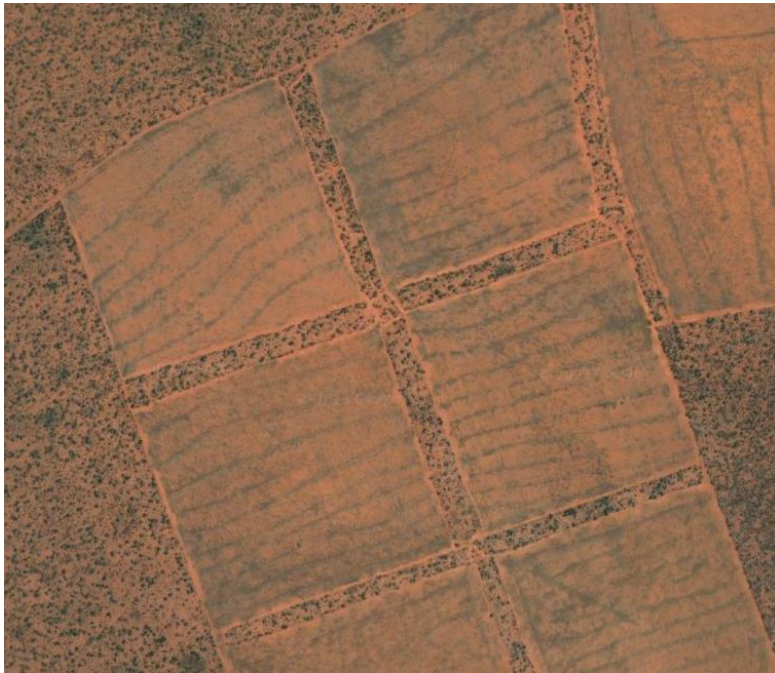
<u>Legal corruption</u>: cosy relationship between intermediaries and regulators creates loopholes in design and administration

<u>Environment cheer squad</u>: green groups want to believe and cheer it on "because we need to get money to the [forests/rangelands etc.], however we do it"
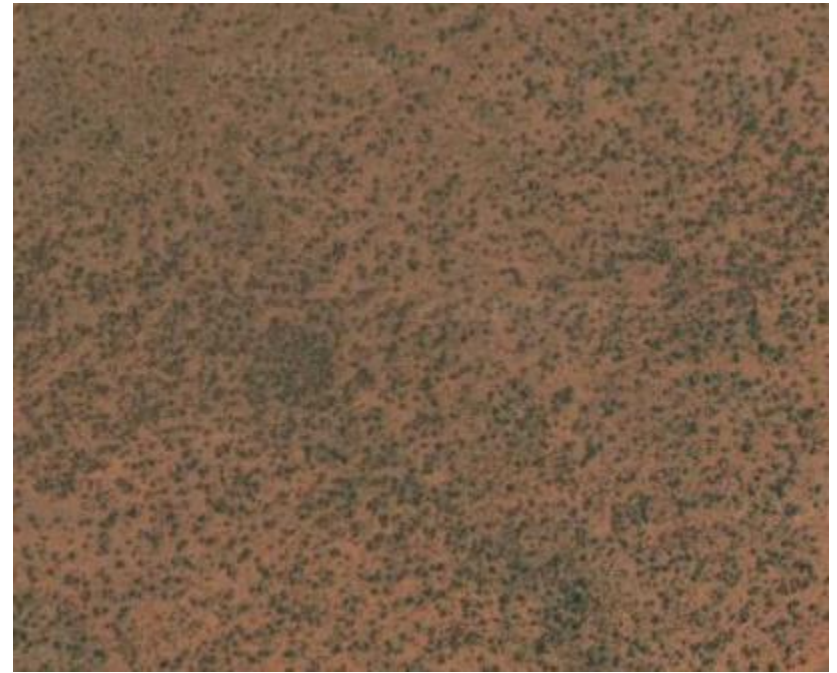
What does failure look like?

Human-induced regeneration of even-aged native forest

Project start   Project finish
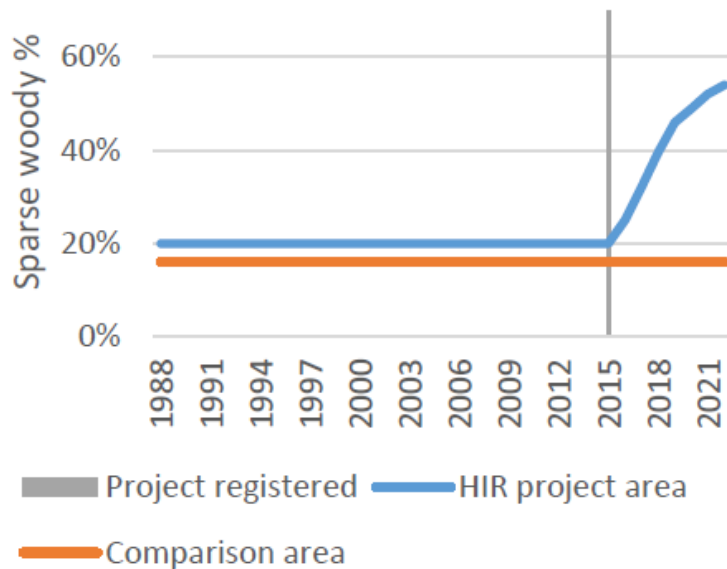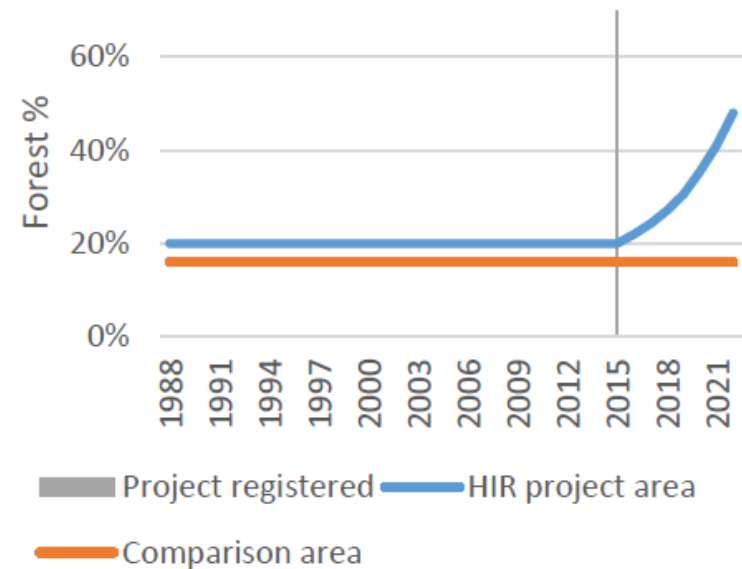
Reality

Project start

Project finish?

What should we see in HIR project areas vs comparison areas?
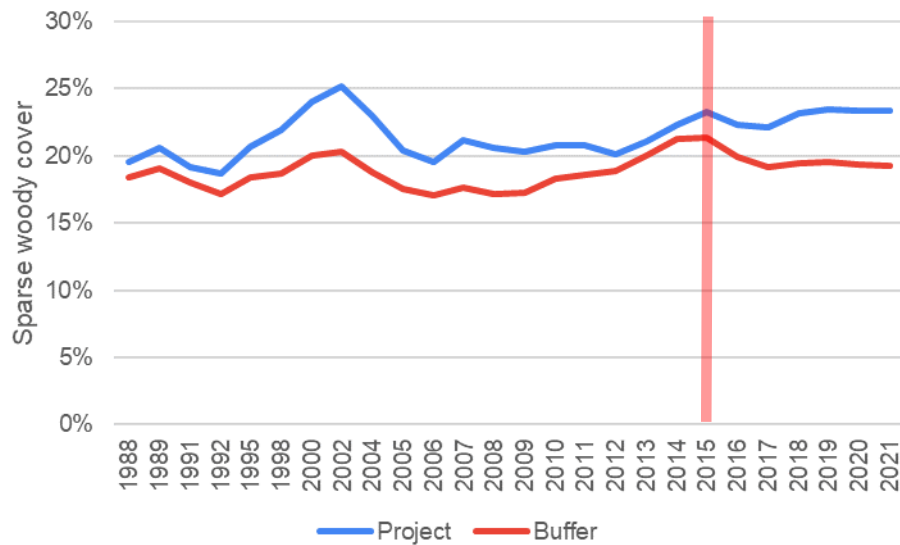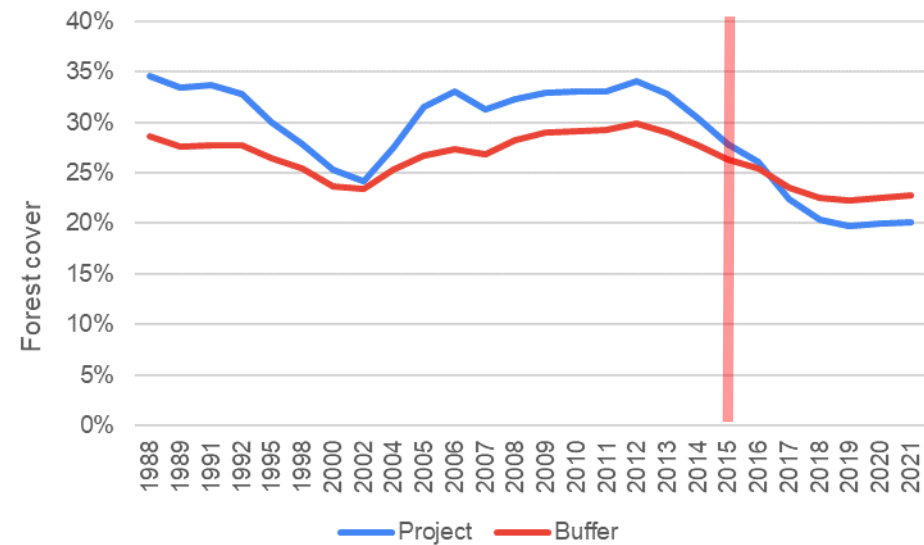

(a) Sparse woody cover %

(b) Forest cover %

What do we see in HIR project areas vs comparison areas?

How do we fix this?

Let 3ʳᵈ parties into the game – participation, transparency and access to justice