



“Designing Offsets Policy for the U.S.” – March 2008 (Draft)

Designing a voluntary greenhouse gas (GHG) offsets program that creates a tradable commodity that can be used to meet compliance obligations is one of the most complex parts of a climate change policy. To be successful, the program will require the government to develop strict scientific standards that can be used to measure and verify reductions in GHG emissions or increases in carbon sequestration. It also will require clear legal standards to establish a safe investment environment, and sound economic tools for addressing carbon leakage.

This 84-page draft report prepared by the Nicholas Institute for Environmental Policy Solutions at Duke University addresses these challenges. It includes a five-page executive summary, a background paper, and example legislative architecture.

Developed with input from economists, scientists, policy analysts, and offset providers at more than two dozen organizations, the paper proposes a practicable option for developing a legislative provision that encourages “uncapped” domestic and international emissions reductions and sequestration yet still has enough rigor and transparency to meet environmental goals without creating a process so onerous that it discourages participation.

The legislative architecture proposed can be applied to any mandatory “cap and trade” policy that allows uncapped GHG mitigation – i.e., reductions in sectors of the economy that are not covered by the cap – to be used as offsets for emissions obligations of capped sectors. The architecture is presented in the context of America’s Climate Security Act of 2007 (S. 2191 Lieberman-Warner), which passed out of the Senate Committee of Environment and Public Works last December and will be debated by the full Senate this summer.

Additional objectives of the architecture described in this paper are to help identify ways to:

- reduce the costs of a mandatory GHG program by increasing the flexibility of compliance;
- encourage innovation and accelerated development of new GHG reduction technologies and methods in uncapped sectors;
- ensure a dynamic program that ties incentives to real reductions so that the program does not become an entitlement; and
- align GHG programs with other environmental objectives.

A draft of the paper is online at <http://www.nicholas.duke.edu/institute/offsetspolicy.pdf>.