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By Sterling Burnett

While much media attention has been paid to 'cap-and-trade' schemes as a way to prevent global warming, there is a second path to global warming salvation - carbon offsets. Indeed, the House Energy and Environment Subcommittee hosted hearings recently on how to use carbon offsets to reduce the costs of reducing greenhouse gas emissions - it promises to be more smoke and mirrors.

Under a carbon offset scheme, a country (or company) can meet its emission targets by paying others to reduce their emissions. To facilitate this process, the United Nations created the Clean Development Mechanism (CDM), an international market where buyers who need to offset their emissions can purchase carbon credits from developing countries - effectively paying for emission reductions by others.

Typical emissions reductions include replacing old plant and equipment, adopting new agricultural practices, or sequestering carbon dioxide underground or in trees. The CDM converts proposed emissions reductions into tradable Certified Emission Reductions (CER) credits. The credits are issued only for emissions reductions that would not have occurred otherwise.

Unfortunately, proving that emissions cuts are reductions that would not have occurred absent the offset payments is proving difficult. For example, India's largest exporter of Basmati rice, KRBL, was set to receive several hundred thousand dollars' worth of CDM credits a year for installing a \$5 million generator to produce electricity from rice husks, a renewable energy source. Though the company claimed the biomass generator would not have been installed without funding from the credits, the senior manager at the plant admitted to the British Broadcasting Corp. that KRBL 'would have done the project anyway.'

In addition, research by the nongovernmental advocacy group International Rivers has found that almost three-quarters of CDM registered projects were already complete at the time of approval and thus did not need carbon credits to be built. And a report by Lambert Schneider of Germany's Institute for Applied Ecology found that 40 percent of CDM projects registered by 2007 represented 'unlikely or at least questionable' emissions cuts. David Victor, the head of Stanford University's Energy and Sustainable Development Program, found that 'between a third and two-thirds' of CDM

offsets do not represent actual emissions cuts.

The voluntary offset market in the United States faces the same problem as CDM projects. For example, to offset all the emissions from the 2007 Academy Awards, the company TerraPass bought offsets from a landfill project in Arkansas. BusinessWeek investigators later found the project would have been undertaken even without offset funding.

It is inherently difficult to measure emission reductions under a carbon offset project. Take carbon offsets for the absorption of greenhouse gases by planting new trees. Estimating greenhouse gas uptake depends on the age of the trees, their growth rate, and climate and soil conditions. Even after all these factors are considered, if the trees do not live as long as 100 years, they will not become net carbon absorbers.

Even when CDM certified projects do cut greenhouse gas emissions, the CDM system is an inefficient way to reduce emissions. As evidence, 30 percent of carbon offset credits currently pay for capture and destruction of trifluoromethane (HFC-23), a greenhouse gas created as a byproduct of manufacturing refrigerant gases. HFC-23 has 11,700 times more heat-trapping potential per unit than CO₂.

The carbon offset credits that sold to reduce

HFC-23 at current demand are twice as valuable as the refrigerant itself. Indeed, researchers estimate that HFC-23 emitters could receive as much as \$7.15 billion from the sale of carbon offsets through the CDM.

By contrast, if companies paid plants directly to capture and destroy the emissions, the cost would be less than \$155.4 million. However, doing so would be outside of the CDM system which requires the companies to buy certified offsets. Thus, the reductions would not count against the companies carbon reduction requirements. Such perverse incentives have led some analysts to fear refrigerant producers are increasing their output solely so they can sell more carbon offsets to reduce the additional waste gas.

It is debatable whether Congress should even take up climate legislation as evidence continues to mount the climate disaster tales told by the likes of Al Gore and James Hansen are more imaginary (based on models) than real.

However, if Congress does act, it should be skeptical of the merits of carbon offset schemes. Thus far, they have proven expensive and open to fraud and abuse.

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