FACT SHEET

The Size of California's Carbon Offset Program:

AB 398's oversized offset program weakens the state's climate goals

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California's offset program allows facilities covered under the state's cap-and-trade program to support projects that reduce emissions outside of the capped sectors in lieu of reducing their own emissions.

Assembly Bill 398 proposes a limit on the use of offsets that is equal to 20% of total state-wide greenhouse gas (GHG) emission reductions expected during 2021-2030 and 70% of the expected effect of the cap-and-trade program.

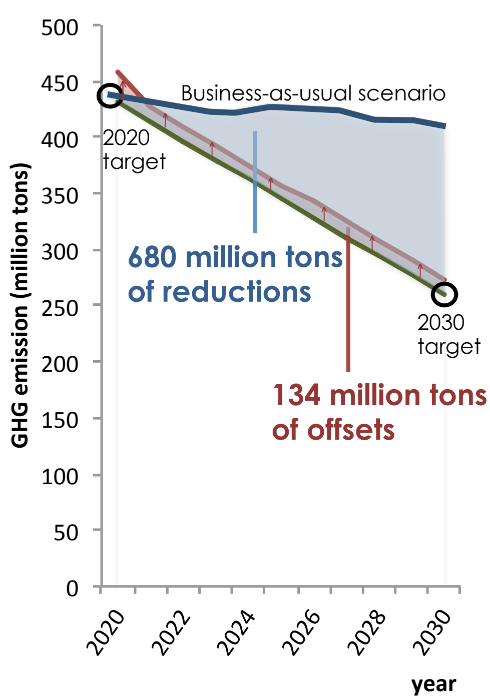
AB 398 defines the limit on the use of offsets as 4% of compliance obligations from 2021-2025, and 6% from 2026-2030. A regulated emitter's *compliance obligation* equals their total emissions.

The proposed limit translates into approximately 134 million metric tons of cumulative emissions reductions from 2021-2030 (shown in the figure).[1] The California Air Resources Board (ARB) estimates that the state will need to reduce emissions by 680 million tons during that period to bring emissions down from business-as-usual to the 2030 target (the blue triangle in the figure).[2] The maximum use of offsets therefore equals 20% of total statewide reductions expected during 2021-2030.

Since ARB expects direct regulatory measures to achieve around ¾ of total reductions through 2030, leaving the cap-and-trade program to achieve the remaining amount,[3] offsets could make up 70% of the effect of the cap-and-trade program on emissions.

Emissions reductions achieved through offsetting are inherently uncertain, and so far offset programs, including California's, have generated substantial portions of their credits from false reductions.[4]

Maximum offsets use compared to total statewide reductions



A large California offset program can also depress carbon prices below levels needed to drive meaningful reductions in the state. Offset credits, in combination with a carry-over of oversupplied allowances from 2020,[5] are expected to make up the large majority of cap-and-trade program compliance under a range of scenarios.[6]

Preserving the environmental integrity of California's cap-and-trade program requires a smaller offset program with stricter standards.

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NOTES

1. Based on allowance budgets, assuming no APCR credits are used, from *Proposed Amendments to the CA Cap on Greenhouse Gas Emissions and Market-Based Compliance Mechanisms Regulation*, ARB, released 12/21/16
2. 2017 Climate Change Scoping Plan Update, ARB, released 1/20/17
3. 2017 Climate Change Scoping Plan Update, ARB, released 1/20/17
4. See Fact Sheet: California's U.S. Forest Offset Protocol Over-credits Reductions (http://beci.berkeley.edu/research/carbon-trading-project/)
5. Chris Busch, Mar 2017, Recalibrating California's Cap-and-Trade Program to Account for Oversupply. Energy Innovation Report
6. Danny Cullenward, June 2017, Critical issues in post-2020 cap-and-trade market design, (www.ghgpolicy.org)