

Discussion of *Agricultural Carbon Credits: Lessons Learned from the AgraGate Experience and Tradeoff Between Permits and Offsets*

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These remarks are the views of the author and do not necessarily represent the views of ERS or USDA.



Offsets as part of the broader Allowance Market

- To what extent might offsets affect the *volatility* of the carbon market?
 - Long lead time suggests that offset supplies will not affect volatility.
 - Offsets may bring new market participants. Will their participation affect volatility? (Probably not much.)
 - Iowa corn farmers
 - Indonesian timber interests
 - Brazilian currency speculators

Offsets as part of the broader Allowance Market, cont.

- To what extent might offsets affect the *price level* of the carbon market?

Offsets predicted to decrease carbon price by 3 to 72 percent.

Suppose offsets are introduced in large numbers and the credited emissions reductions are believed not to have occurred.

- On what basis might we believe that reductions did not occur?

- Sum of offset credits is contradicted by EPA's *Greenhouse Gas Inventory*, for example.

- Classes of offsets suspected of being weak – Offset rules are not sufficiently stringent.

- Observation individual projects have inadequate carbon sequestration (e.g., drought or forest fire)



Remedies for suspected "weak" offsets

- Large scale: Legislative response – Tighten cap
- Small scale: From the start, offset credits are adjusted for normal variability
- Medium scale: Tighten offset eligibility and crediting rules

Legislation already adheres very closely to economic standards for cost-effectiveness!

Domestic offsets much easier than intl. offsets



