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.