

# Offsets vs. Allowances

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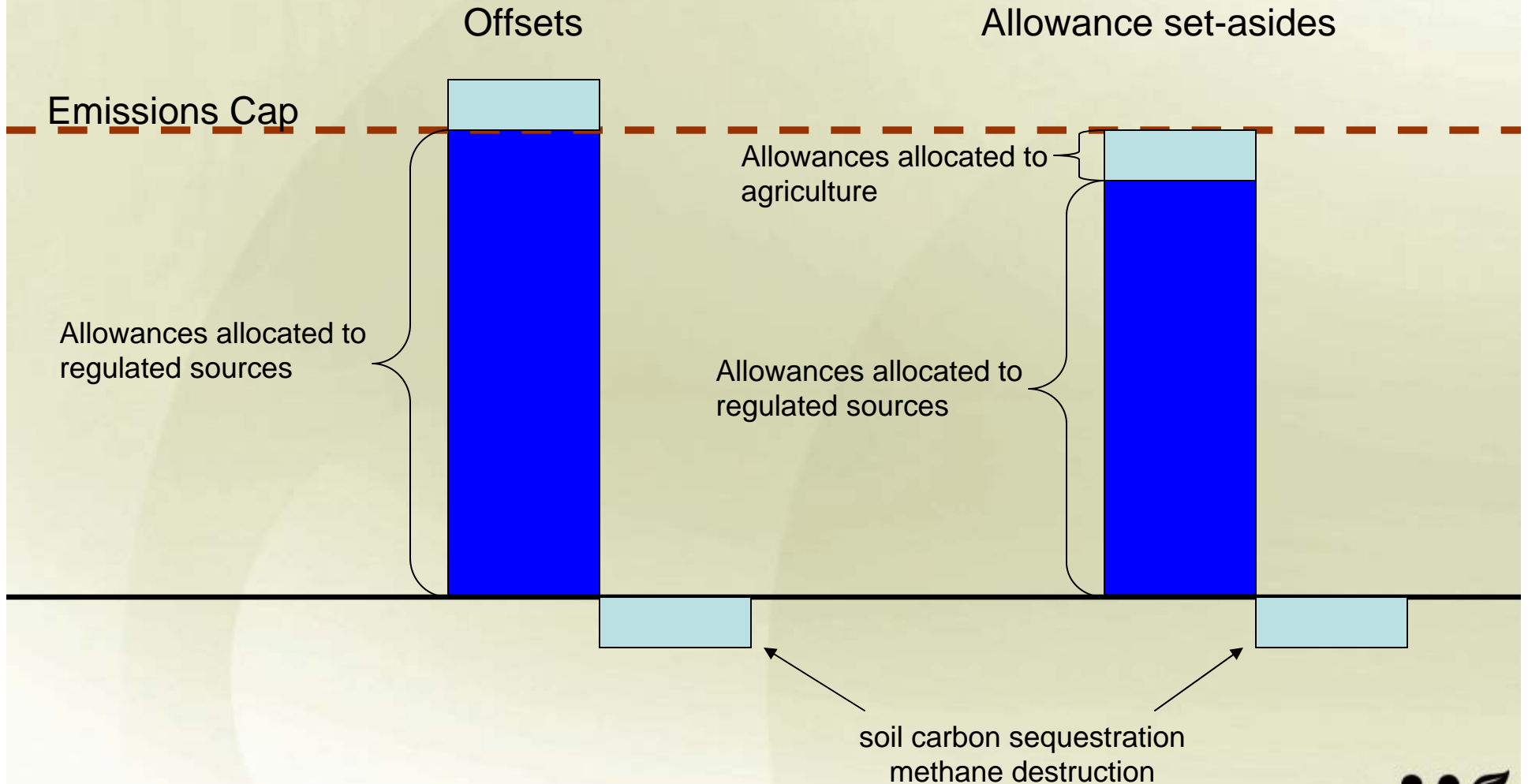


# Bringing agriculture into a cap and trade program

- Proposed cap and trade programs target major emitters of greenhouse gases
  - Agriculture a relatively small source of emissions, not included under a cap
- Agriculture can be a source of mitigation
  - Soil sequestration
  - Methane destruction
  - Fertilizer management
- Offset credits and allowance set-asides are options for bringing agriculture into the program



# Cap and trade with offsets or allowance set-asides



# Program perspective

## Offsets

- Regulated firms can emit above the cap
- Measurement and verification critical for meeting cap
- Reduces price of allowances

## Allowance set-asides

- Regulated firms cannot emit above the cap
- Net emissions may be below cap
- Measurement and verification not as critical for insuring cap met
- Does not reduce price of allowances



# Farmer perspective

## Offsets

- Permanence and additionality important
- Subject to greater scrutiny
- Dealing with specific firm or aggregator
- Compensation relatively certain

## Allowance set-asides

- Very similar to conservation program
- Could be used to reward early adopters
- Compensation from sale of allowances more uncertain



# Other issues

- Uncertainty over performance of agricultural practices
- Transactions costs of bringing buyers and sellers together in offset market
- Coordination with conservation programs

