



# Counterfeit Emissions Reductions: The Failings of Offsets

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## What Are Offsets?

In cap-and-trade and other pollution trading regimes, polluters are allowed to satisfy emissions reduction requirements either by directly reducing their emissions, investing in technology to reduce their pollution, or trading emissions credits. Emissions credits are equal to the amount of pollution a company is allowed to emit.

Offsets are a “pay-to-pollute” option for meeting emissions reductions. In theory, an offset is a tradable credit representing a pollution reduction from a source outside of a cap-and-trade market. A company can purchase offset credits to reduce emissions outside of the cap, instead of reducing them at the source.

For example, say a company is permitted 5,000 tons of carbon dioxide emissions per year, but wants to emit 7,000 tons. Under cap-and-trade, the manufacturer would look to buy 2,000 tons of carbon dioxide emissions credits from another company, or would look to “offset” those 2,000 tons by buying offset credits from someone outside the cap-and-trade regime.

The most common offsets are those for carbon emissions; nitrogen and phosphorus in water; and sulfur dioxide.

## The Truth About Offsets

In reality, offsets fail to deliver their promised emissions reductions. They are littered with problems that jeopardize the possibility of achieving actual reductions. Instead of helping to reduce pollution, offsets offer polluters a giant loophole to keep on polluting.

1. **Offsets are subject to corruption because verifying an offset is nearly impossible.** Several requirements must be met for an offset to be legitimate. Each requirement is difficult to achieve, and a number of them are expensive to verify. As a result, many offsets that get verified fail to meet all of the requirements, but are still sold as pollution reductions.

For example, the U.S. renewable fuel standard program works to increase the use of renewable transportation fuels, and companies can trade renew-

able fuel credits (a form of offset) to meet cleanup standards. However, in 2012 a Maryland man, Rodney Hailey, was convicted of selling 32.2 million fake renewable fuel credits, worth \$9 million, to companies like ExxonMobil, BP and others.

2. **The sale of these faulty offsets means that the chance of emissions reductions actually happening is low.** If a company buys an illegitimate offset that does not produce the reductions it promises, and the company keeps polluting at the source, then there is no pollution reduction. This can result in increased emissions. Moreover, communities close to those companies that continue polluting at the source still face serious health and environmental impacts.
3. **Offsets are not a cost-effective alternative that makes pollution reduction more affordable.** The cost of verification increases with the level of desired accuracy, and some offsets projects do not even happen because they would be very expensive to verify. Were real verification of an offset to happen, it would almost always be costly. In fact, a truly rigorous offset verification system would require a costly new bureaucracy.

Instead of allowing polluters to pay to pollute, we need to enforce our environmental protections, and achieve real pollution reductions.

## For More Information, See Our Other Publications:

*Bad Credit*

*Pollution Trading: Cashing Out Our Clean Air and Water*



### For more information:

**web:** [www.foodandwaterwatch.org](http://www.foodandwaterwatch.org)

**email:** [info@fwwatch.org](mailto:info@fwwatch.org)

**phone:** (202) 683-2500 (DC) • (415) 293-9900 (CA)

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