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Carbon Offsets – An Alternative in Reducing Greenhouse Gas Emissions

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Forests in the United States naturally remove carbon dioxide during photosynthesis and sequester carbon by storing it in the trees, root systems and in the woody debris on the forest floor resulting in a reduction in the accumulation of greenhouse gas emissions. The sale of carbon offsets by forest landowners is one option to promote carbon sequestration and reduce forest conversion by clear cutting or property development. The sale of carbon offsets enables industry and individuals to meet their carbon reduction goals when the cost of a reduction of carbon emissions within their business is cost prohibitive.

A carbon offset is an environmental benefit purchased at a cost below the cost that would be incurred by the industry to achieve the same reduction in emissions. The monetary value of the carbon offsets sold is a financial incentive for landowners to participate in forest management and sustainability as a financially viable alternative to timber removal which ultimately contributes to overall greenhouse gas emissions. A carbon offset represents the removal of one (1) metric ton of carbon dioxide equivalent from the atmosphere, which is given a monetary value per ton based on market conditions.

Carbon offsets are typically sold by participating landowners in a marketplace defined as voluntary or mandated cap-and-trade programs. The voluntary market provides a mechanism for businesses and individuals to purchase carbon offsets to reduce their carbon footprint. Although no federal cap-and-trade requirements currently exist, states have attempted to reduce carbon emissions through the regulated sale of carbon credits. In 2006, California passed the Global Warming Solutions Act to require reductions in the state's greenhouse gas emissions. The California Air Resources Board was authorized to develop the California cap-and-trade program to create economic incentive by placing a cap on greenhouse gases that may be emitted by a regulated industry, which in turn may purchase carbon offsets as emission allowances when the industry cannot meet its emission limits. Industries that are subject to California's cap-and-trade emission regulation may meet up to eight percent (8%) of their obligation to reduce greenhouse gas emissions with carbon offsets. The financial return for the sale of carbon offsets provides an incentive for forest landowners to increase their volume of sequestered carbon, to maintain their "carbon stock" in their forested lands through management practices, and to increase the carbon offsets in their land available for sale in the marketplace in the long-term. Carbon sequestration projects pursuant to improved forest management practices seek to increase the forest carbon sequestered above a "baseline" based on U.S. Forest Service Inventory Analysis data. As the marketplace sets a value of sequestered carbon in metric tons, the carbon offset has a monetary value (per metric ton) that is sold to a regulated industry as allowances where the entity exceeds its statutory greenhouse gas emission limits.

Deforestation currently contributes 10% - 15% of global greenhouse gas emissions. Forest Trend, a nonprofit organization whose goal is to maintain, restore and enhance forests, reported that in 2014, companies and governments world-wide committed $705 million dollars in new dollars to avoid deforestation. One-third of those new dollars were channeled through voluntary and compliance carbon markets in the form of direct market-based payments to emission reduction. Forest landowners in Arkansas have an option to maintain their forested lands and potentially receive a financial gain through the sale of units of sequestered carbon as carbon offsets in the cap-and-trade marketplace.

If you have any questions regarding these or other environmental issues, please contact Al Eckert at aeckert@QGTlaw.com or 501.379.1712.