



United States Department of Agriculture

Transaction Costs in US Environmental Markets

Some framing questions...

- What costs are we talking about?
- Why does it matter?
- What factors influence these costs?
- How can we reduce transaction costs?

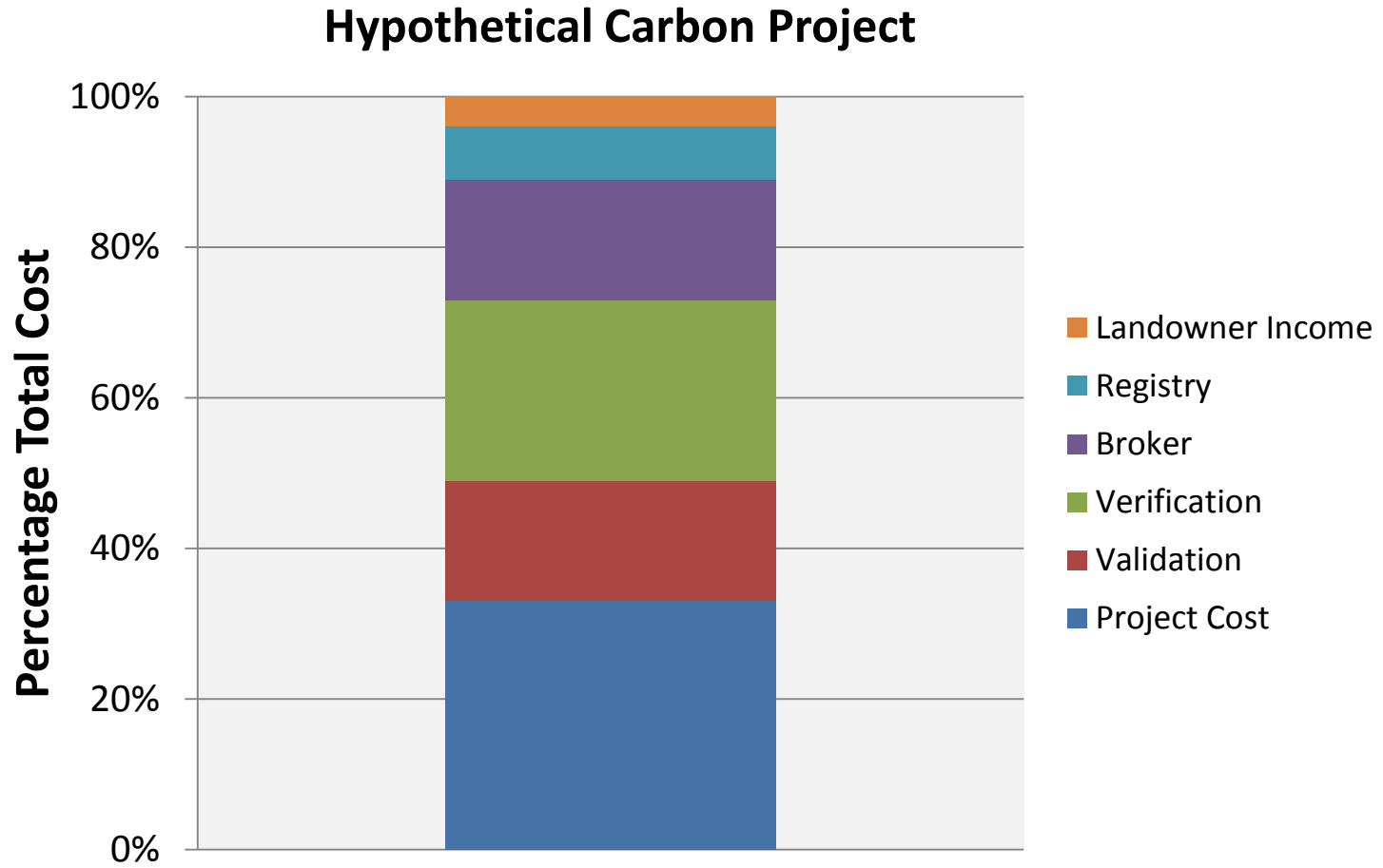


What are transaction costs in environmental markets?

Type of transaction cost	Activity Involved
Protocol development	Establishing baseline, additionality, quantification, etc.
Information and search	Identifying sellers and buyers
Negotiation	Lawyers/contracts/easements
Project design and approval	Creating a project plan and assembling associated documents
Monitoring	Data collection and record keeping
Verification (3 rd party)	Desk review or site visit to ensure accurate reporting of benefits

Adapted from Milne, 1999

What does it take to get a credit to market?





Why does it matter?

To make markets work, we need participation from landowners.

To get landowners to participate, we need to provide incentives.

Efficiency is important to make this an effective market solution.

Ways to Address Transaction Costs: Carbon Offset Protocols

Transaction Cost Influencer	Ways to Minimize Costs
Performance risk and uncertainty	Develop regional emission factors
Litigation risk	Aggregated risk pool
Scale	<ul style="list-style-type: none">• Pave the way for aggregated projects• Use randomized sampling
Tool availability and quantification	<ul style="list-style-type: none">• Use average rotation data• Streamline data collection

Questions?

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