

CANADA'S OFFSET SYSTEM - STATUS

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Natural Resources
Canada

Canadian Forest
Service

Ressources naturelles
Canada

Service canadien
des forêts

Canada

OUTLINE

- **Background**
- **Offset system policy development**
- **Key design issues**
- **Next steps**

Note:

- Presentation provides overview of some of current thinking
- No final decisions on system design have been taken

BACKGROUND

- **Climate Change Plan for Canada (November 2002):**

Large Final Emitter (LFE) system

- Covers large industrial facilities:
 - oil and gas production
 - upgrading and refining
 - pipelines
 - power generation
 - mining
 - steel
 - aluminum
 - chemicals/fertilizers
 - pulp and paper
 - cement and lime
- Target for LFE emission reductions of 55 Mt CO₂e / year below 2010 “business-as-usual”
- Access to emissions trading, domestic offsets and international permits to provide flexibility

BACKGROUND

- **Climate Change Plan for Canada (November 2002):**

Offset System

- “The Plan proposes to establish a framework that will enable agricultural and forestry sinks and emissions reductions to be sold as offsets into a domestic emissions trading system.”
- “Offsets would have to be measurable and go beyond business-as-usual practices.”

POLICY DEVELOPMENT

Working Group on Offsets - federal government team

- Environment Canada, NRCan, Agriculture and Agri-Foods Canada, Foreign Affairs, PCO
- Weekly meetings / workshops; various issue-specific sub-groups

June 2003 - Offset System Discussion Paper

- Options for addressing key design elements

June 2003 - National Consultations - based on Discussion Paper

- Over 85 substantive written submissions
- Informal contacts continue with individual jurisdictions and stakeholders

April 2004 - Transaction and Administration Cost Report

- Assessed 3 design scenarios - to identify where cost savings might be found

May 2004 - Offset Current Status Deck

OFFSET PROJECT CYCLE

- **Proposed project cycle:**

- **Project development**

- by project proponent

- **Project initiation, documentation and review**


- submitted by proponent for ex-ante validation
 - approved by Offset Program Authority

- **Emission reduction / sequestration**

- ex-post measurement and monitoring by proponent
 - ex-post verification (third-party)
 - certification by Offset Program Authority
 - credits issued by Offset Program Authority

- **Trading**

- by market participants



Offset
System
Program
Authority

DESIGN ISSUES

Scope of Offset System

- **Scope:** no final decision on inclusion of any sectors beyond agriculture and forests, as established in Canada's Climate Change Plan
 - Use "Broad as practical" philosophy
 - Working assumption is that Land Fill Gas projects included
 - Considering inclusion of small renewable energy projects, demand-side management projects, energy efficiency projects
 - Forest carbon projects
 - Afforestation / reforestation projects included
 - Avoided deforestation projects included
 - Forest management projects included if Canada includes FM in its national accounting
 - Projects to reduce or suppress fire / insects not included

DESIGN ISSUES

Surplus and Ownership

- **Surplus:** reductions/ removals awarded credits should be incremental to those resulting from other federal climate change measures
 - Implementation still an issue: direct versus indirect measures
- **Ownership:** project proponent is responsible for demonstrating that he/she is the party entitled to receive the offset credits
 - Forest carbon projects: where a proponent wants to undertake a project on forest land owned by a province / territory they must demonstrate they have provincial / territorial approval to seek credits

DESIGN ISSUES

Start Date, Crediting Period, Registration

- **Project Eligibility Date:** January 1, 2002
 - Eligible projects must generate their initial reductions / removals on or after this date
- **Crediting Period:** Eligible projects can earn credits beginning January 1, 2008
 - No end date specified
- **Registration:** Projects could be validated and registered as early as 2006 (assuming all the infrastructure is in place).
 - Projects reassessed for re-registration January 1, 2013, and every 5 years thereafter
 - Eligibility criteria at the time of re-registration will be used
 - Baselines considered only every second registration

DESIGN ISSUES

Baselines

- **Credits could be awarded for the difference between baseline (e.g. “without project” emissions / removals, industry standard) and the “with project” measured emissions / removals**
 - Exact approach will vary by sector to take into account different characteristics of the sectors
- **Forest carbon project baselines**
 - Project-by-project approach: variety of quantification approaches possible / justifiable depending on project characteristics
 - regional averages (practices, parameters)
 - control plots
 - pre-project measurements

DESIGN ISSUES

Forest C Project Baseline Quantification

- **Regional averages:** for example growth rates, soil carbon content, natural disturbance rates, activity levels
 - Must adequately represent the current and expected future project-level baseline conditions
 - May include historical data and trends
 - Justify the decision to use a regional average, as opposed to site-specific data
 - Justify definition of chosen 'region'
 - Provide evidence showing that the data used to determine the regional average is applicable to the project
- **Control plots**
- **Pre-project measurements**

DESIGN ISSUES

Forest C Project Baseline Quantification

- Regional averages
- **Control plots**: Defined (or “fixed”) areas outside of the project area but representative of the project site
 - Justify the decision to use control plots
 - Evidence that the control plots are representative of the project area, with respect to the particular data being collected
 - Provide assessment of risk to the control plots and how this risk will be managed
 - Provide details on location of control plots
 - Provide a monitoring plan for control plots
- Pre-project measurements

DESIGN ISSUES

Forest C Project Baseline Quantification

- Regional averages
- Control plots
- **Pre-project measurements:** Historical and current data collected from within the project boundary prior to the implementation of any project activities
 - Use data to model and estimate the baseline
 - Justify the applicability of this approach
 - Show that historical and current data provide a reasonable basis for determining what would happen in the future without the project

DESIGN ISSUES

Non-Permanence of Sinks

- **Both temporary credits and permanent credits would be available to forest/agriculture carbon project proponents**
 - LFEs could use both temporary credits and permanent credits for compliance with their targets
- **Temporary credit**
 - Represents storage of 1 tonne of CO₂e for 1 year
 - LFE would be required to replace temporary credit one year after use
- **Permanent credit**
 - Represents permanent storage of 1 tonne of CO₂e
 - Proponent has full liability for credit replacement if the sequestered carbon emitted back to the atmosphere; liability period not decided
 - Proponent could choose to share replacement liability with federal government in exchange for a discount on credits awarded

DESIGN ISSUES

Governance and International Links

- **Governance:** Options for institutional status of Offset System Program Authority still under review
 - Expected that verification activities would be performed by private sector accredited verifiers
 - Expected that operation of the offset registry will be contracted out to the private sector
- **Links with international trading:**
 - Permanent domestic offset credits would be exchangeable for international Kyoto units

NEXT STEPS

End 2004 / early 2005 - Design proposal

- Design proposal reviewed by Deputy Ministers / Ministers
- Basis for further Provincial / Territorial and stakeholder review

2005-2006 - Elaboration of detailed rules

- Legislation, regulations
- Guidance documents including reporting forms
- Quantification protocols

2006 - System fully operational

- Project proposals can be submitted for review

2008 and onward - credits can be sought

FOR MORE INFORMATION...

Offset Trading System: www.climatechange.gc.ca

- Offset System Discussion Paper
- Results of national consultations
- Transaction and Administration Cost Report
- Status Update

LFE system: www.nrcan-rncan.gc.ca/lfeg-ggef

- Over 20 discussion papers

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