

Project Green



The Climate Fund



The Climate Fund, introduced in Canada's Green Budget 2005 and an integral part of Canada's Climate Change Plan 2005, is a permanent institution to purchase, on behalf of the Government of Canada, greenhouse gas (GHG) reduction and removal credits generated in Canada and abroad. With an initial capitalization of \$1 billion, the Climate Fund represents one of the primary tools in the Government of Canada's approach to honouring its short-term commitments under the Kyoto Protocol.

The Climate Fund will lay the groundwork for long-term transformational change to a less carbon intensive and more competitive Canadian economy that supports a healthy population and a sustainable environment, key components of Project Green, the Government of Canada's overall approach to sustainability and competitiveness.





Domestic Reductions

The Climate Fund's primary mandate is to promote GHG reductions and removals in Canada. It will do so by purchasing credits that have been generated by Canada's Offsets System for GHG emissions (see *What is an offset credit?*). The Climate Fund may also make advance payments for these credits when they are generated by a large strategic project developed in partnership with the private sector.

What is an offset credit?

Projects that result in GHG reductions or removals could generate offset credits.

Reductions occur when emissions released into the atmosphere by a source are decreased. Potential examples include municipalities that capture and flare landfill gas, businesses that become more energy efficient, new non-emitting electricity generation projects, and the capture and geological storage of carbon dioxide emissions.

Removals occur when emissions into the atmosphere are trapped by a natural carbon sink. Potential examples include farmers who adopt low-till or zero-till practices and forest companies that engage in state-of-the-art forest management practices.



For projects to qualify for offset credits, certain criteria would have to be met. The proposed criteria may be found at www.climatechange.gc.ca.

International Reductions

The Climate Fund will purchase credits generated by Kyoto Parties around the world by the Kyoto Protocol's three market mechanisms (see *What is a Kyoto credit?*). Rules will be developed to ensure that all international purchases provide benefits to Canada by advancing any number of Canadian technology, trade, competitiveness, environmental and international development interests.



Purchases of Assigned Amount Units from Central and Eastern Europe will be "greened" through a requirement that the seller reinvest 100% of the proceeds from the sale in projects and activities that contribute to reductions in GHG emissions.



What is a Kyoto credit?

The Kyoto Protocol established three market mechanisms:

The **Clean Development Mechanism** involves the generation of credits ("Certified Emission Reductions") from investments in GHG reduction and removal projects in developing countries in accordance with those countries' sustainable development objectives.

Joint Implementation involves the generation of credits ("Emission Reduction Units") from investments in GHG reduction and removal projects in industrialized countries.

International Emissions Trading involves the purchase and sale of these credits and of surplus "Assigned Amount Units" generated by the achievement and exceedance of an emissions reduction target under the Kyoto Protocol.

More information on the Kyoto mechanisms, including the criteria that Clean Development Mechanism and Joint Implementation projects must meet, can be found at www.cdm-ji.ca.



Use of Market Forces



All purchases by the Climate Fund will be undertaken through a competitive process in order to promote the cost-effective sourcing of GHG reduction and removal credits while integrating climate change considerations into the economic decision-making of businesses and individuals.



Governance

The Minister of the Environment has the responsibility for the overall direction of the Climate Fund and will receive advice from an Advisory Board composed of knowledgeable representatives from a range of stakeholder groups in Canada.

To ensure transparency and accountability in its operations, the Climate Fund will prepare an Annual Corporate Business Plan and Annual Report, which will be tabled in the Parliament of Canada. It will also undergo an annual audit by the Auditor General of Canada.



Next Steps

The Climate Fund is in the process of being established and will be in a position to fully engage in arrangements for the purchase of domestic offset credits and Kyoto units in 2006. Updates on developments with the Climate Fund are available at www.climatechange.gc.ca.

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