

Carbon Offset Trading in Canada

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Natural Resources
Canada

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Canada

Goal



- To encourage emission reductions / removals outside the Large Final Emitter System
- Large Final Emitter system
 - Cap and trade system applied to large industrial facilities
 - Covers all major industrial emitters (oil and gas, thermal electricity generation, mining, selected manufacturing sectors)
- Offset project crediting system
 - Projects: baseline and credit system
 - Covers forest and agriculture carbon, landfill gas; potentially other types of projects
- Systems are in development - no final decisions yet



Policy development



June 2003 - Federal Offset System Discussion Paper

- Discussed design options
- Basis for national consultations

February 2005 - Federal Budget

- Climate Fund - competitive process for offset project funding

April 2005 – Expect Offset System Design proposal to be released

- Detailed design proposal covering all aspects of system



Offset credit creation process



- Project development - by Project Proponent
- Project documentation and validation
 - Project Document submitted for validation
 - Review of project (Review Team)
 - Approval or rejection by Offset Program Authority
 - If approved, Registered Project Document
- Emission reductions / removals
 - Ex-post measurement and monitoring by proponent
 - Reductions / Removals Report
 - Verification Report (Third-party private sector verifier)
 - Review and certification by Offset Program Authority
 - Credits issued by Program Authority
- Credits sold



Credits are for eligible reductions / removals ...



- Projects would be eligible for crediting if reductions / removals began after certain date (e.g., January 1, 2002)
- Credits would be awarded for reductions / removals that occur on or after January 1, 2008
 - No end date specified for the Offset System
- Project registration is for a fixed period (e.g., 8 years)
 - Can then re-register
- Reductions / removals could be credited only once
- Ownership of reductions / removals must be clear



... and must have integrity



- Reductions / removals must be:
 - Real
 - Quantifiable
 - Verifiable
- Reductions / removals must be incremental to those resulting from:
 - other climate change measures
 - regulatory requirements



Project baselines are key for determining credits



- Credits are awarded:
 - For difference between the business-as-usual project baseline (e.g., “without project” emissions/removals, industry standard) and “with project” measured emissions/removals, or
 - Using a streamlined practice-based coefficient approach
- Baseline approach could be sector specific
 - agriculture: standard coefficients or project-specific estimates
 - forests: project-by-project approach
 - clean energy: national emission intensity factor
 - Landfill gas: project-by-project approach



Forest carbon projects



- Broad inclusion of forest carbon projects:
 - Creation of new forests (afforestation/reforestation)
 - Avoiding permanent loss of forest (avoided deforestation)
 - Forest management (if Canada includes it in its Kyoto accounting)
- Quantification of credits is ex-post and based on:
 - Project carbon stock change less baseline carbon stock change, or use of coefficients
- Two approaches for addressing non-permanence issue
 - Temporary crediting
 - Permanent crediting



Sinks project crediting



- Temporary credits
 - Represent storage of 1 tonne of CO₂e for 1 year
 - First issuance upon verification of removal, and yearly issuance continues if the reservoir is maintained
 - Project proponent has no responsibility to maintain the reservoir
- Permanent credits
 - Represents "permanent" storage of 1 tonne of CO₂e
 - Issued once after verification of removal
 - Project proponent has the liability for replacement of carbon credited if the sink is reversed
 - Liability period is not yet decided



Next steps



April 2005 – Expected release of Design Paper

2005-2006 - Elaboration of detailed rules

- Legislation, regulations, guidance documents, quantification protocols

2006 - Aiming for system to begin operation

- Project proposals can be submitted for review



Questions?



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