#### **Carbon Offset Trading in Canada**

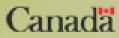
**Canadian Forest Service – Tony Lemprière** 

**Plantation Investment Forum** Toronto, ON March 22 and 23, 2005



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#### 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



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# **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



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## **Project baselines are key for determining credits**



- Credits are awarded:
  - For difference between the business-as-usual project <u>baseline</u> (e.g., "without project" emissions/removals, industry standard) and "with project" measured emissions/removals, <u>or</u>
  - 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



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## Sinks project crediting



- Temporary credits
  - Represent storage of 1 tonne of CO<sub>2</sub>e 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 CO<sub>2</sub>e
  - 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









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





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