

Draft Carbon Pollution Pricing: Options for a Federal GHG Offset System

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Thank you for the opportunity to comment on the federal offsets policy.

Overview



1. We welcome the federal government's decision to develop a federal offsets program. A federal program has potential to ensure national consistency and national fungibility.
2. The signatories to this submission agree that carbon offsets can have a legitimate role to play in providing compliance flexibility. However, we would like to reinforce that offsets are not a way to avoid direct greenhouse gas emissions reductions, including from activities that cause emissions from the loss and degradation of ecosystems.
3. We would note that to meet the Paris Agreement goals we need to increase our emission reduction programs overall, including by putting in place programs to reduce GHG emissions from activities that impact our ecosystems and harm biodiversity.
4. Therefore, the signatories want to flag that we believe that the government of Canada needs to continue to increase action - regulations, policies, etc. - to reduce GHG emissions, including ecosystem emissions. Where possible, specific offset standards and practices implemented by project proponents should ultimately inform the development of new regulations to reduce those emissions more systematically.
5. The main interest of those submitting comments on this draft is that any offset projects impacting ecosystems have positive biodiversity and climate mitigation benefits. We call these "nature-based climate solutions". We are pleased that such actions could be part of the offset system as it will help to pilot the implementation of nature-based climate solutions.



6. In recognition of Canada's goals to create better functioning ecosystems, in concert with achieving its climate goals, we recommend care be taken around ecological appropriateness of carbon offset projects. Forest carbon projects should focus on restoring and maintaining ecosystem function –as they most often do in practice. As well, even though reforestation offset projects are unlikely to be enabled under this Federal GHG Offsets System, due to the (appropriate) requirement for “ex-post” crediting, and time-value financial considerations, we would like to be explicit in our recommendation that neither monoculture plantations nor non-native species plantations be considered for inclusion in the System.
7. We highlight the importance of considering indigenous rights for any project taking place on lands where indigenous peoples have or are seeking the right to manage their lands. This should be a principle incorporated in any standard developed.

General comments

1. We agree that a credible carbon offsets policy must be rigorous and that credits must be verifiable. We endorse important principles such as relevance, completeness, consistency, accuracy, transparency, conservativeness.
2. We welcome the elements included by the Government of Canada: additionality, leakage, verifiability, and permanence.
3. We reinforce the importance of credible information for protocol development - including for setting baselines, assessing leakage – to ensure that promised emissions reductions are achieved.
4. We also reinforce the importance of solid information for activities that impact ecosystems to ensure positive outcomes for ecosystem integrity, ecosystem health and biodiversity.
5. We recognize that the quantification and accounting methodologies for some ecosystems with high climate change mitigation potential and high biodiversity values are poor, including coastal ecosystems (i.e. saltmarshes and eelgrass beds), peatlands, grasslands and croplands. To ameliorate this situation, we suggest a fund to improve the understanding of GHG emission reduction in these non-forest ecosystems. Current science indicates that conservation and restoration of these non-forested ecosystems could help Canada meet its Paris Agreement goals.
6. We agree user fees are necessary to cover the costs of managing the database and other elements of the program and that the offsets program should be managed by the federal government.
7. Reversals
 - ***Environmental Integrity Account and Unintentional reversals*** (i.e. from forest fires, insect outbreaks, etc.). We agree that your proposal to protect sellers and buyers of ecosystem-based offsets from the risk of reversals is the right approach. A buffer pool, like the Environmental Integrity Account, is necessary if nature-based offsets are to have any possibility of advancing. This would reduce the risk associated with unintentional reversals for both project developers (sellers) and buyers (industries with a cap). We note that this approach has been successfully used by some of the verification systems for voluntary carbon offsets.

- **Intentional reversals.** We agree that for intentional reversals the project proponents should be liable to either remit compliance units or to pay excess emissions charges. The onus here is on the project proponent and not the offset purchaser.
8. **Aggregated Projects.** The program allows for aggregating projects. We agree, as this would enable smaller projects to be part of the program. For example, it would enable small-scale community forests to jointly develop offset projects that reduce GHG emissions through improved forest management restoration and conservation as well as small-scale farmers to reduce GHG emissions through improved agricultural practices. We also agree with the idea of a separate application process for aggregated federal offset projects. We believe this might encourage nature-based offsets, particularly in the agricultural sector.
 9. We agree with the choice of assigning ECCC responsibility for overseeing Federal Offset Protocol development, review and approval. However, adequate resources and urgency are required. There is still much work to be done in protocol development for eligible projects so that companies, organizations, local governments, remote, rural and indigenous communities can start driving emissions reductions in innovative ways.
 10. Restricting the Federal GHG Offsets system eligibility to the development of offsets within Canada is important. We are aware that other countries are also developing domestic carbon trading systems to help meet their NDCs. Rules still to be developed within the Paris Agreement Article 6, for issuance of Internationally Transferred Mitigation Outcomes (ITMOs) is the proper forum for rules around eligibility of emissions reductions internationally. We are confident that Canada will influence those rules in a positive way.
 11. Finally, there are other offset demand drivers outside the compliance market, including the voluntary business market and carbon neutral government. We urge the Government of Canada to apply compliance grade rules to carbon neutral government offset credits and to encourage all provinces and territories to do the same.

Recommended Improvements

1. **Cap on the use of offsets.** To ensure that the program meets its goal of encouraging direct GHG reductions, we recognize that it may be desirable to implement a quantitative limit on the usage of carbon offsets. Such a cap would establish a maximum percent of capped emissions that could be covered by carbon offsets, under the Canadian Output-Based Allowance system. You will recall that the California cap-and-trade systems (which Quebec is a partner to, under the Western Climate Initiative) has a limit on the quantity of carbon offsets that can be used in their cap-and-trade system. While 8% of GHG emissions can be covered by offsets until 2020, the percentage goes down to 4% (2021-2025) and 6% (2025-2030). We recommend that ECCC undertake to establish carbon offset limits through a process that models emissions, emissions charges and surplus credits in the regulated OBA sectors, along with carbon offset supply models and overall pricing levels of the compliance options, so as to ensure these policies work together to achieve emissions reduction objectives. We recommend that Canada review the offset limit in 2022 to check that it is achieving its desired outcome.

2. **Inclusion criteria.** The policy is silent on the specific types of projects that will be eligible for carbon offsets other than to indicate offsets are additional only if beyond business as usual, regulation and existing incentives. Additional inclusion criteria related to projects that impact ecosystems would help to focus offsets in areas where there is good information, both on the GHG emission reduction potential and biodiversity benefits of the actions taken. For example, nature-based climate solutions projects that focus on conservation actions to reduce forest loss or significant degradation are preferred and inclusion criteria that create an incentive to alter ecosystem processes or function would be ineligible.
3. **The need for continued work on science, quantification and accounting methodologies.** Our understanding of how human activities impact ecosystems and result in GHG emissions is constantly improving. Findings around the GHG emissions related to human activities in peatlands, wetlands and other ecosystems point to the need to continue to improve our understanding of these issues and to develop quantification methodologies that can ultimately be used in our National Inventory reports. While we agree that it makes sense to limit **offsets** to activities that generate emissions reductions in our National Inventory Report, so that the offsets will be counted as Canada strives to meet its NDC, we would note that our actions should not stop there.
4. **Ecosystem additions to the National Inventory.** We recommend intensifying the work on inclusion of additional ecosystem-based Sources, Sinks and Reservoirs of emissions into the *National Inventory of Greenhouse Gas Sources and Sinks*, in the future. This would allow for projects or policies that reduce emissions from ecosystems not currently captured in the National Inventory. This should be done before 2030.
5. **Baselines.** We suggest the government consider the advantages of a project-based baseline approach over the standardized baseline approach in some cases. While both approaches can have credibility, project-based baselines can be more accurate when ecosystem carbon is highly variable depending on location specific factors. It is important, however, to ensure that when project-based baselines are used the criteria of additionality is firmly established.
6. **Permanence.** We recommend that 100-year performance of projects be required, as in BC and other systems. This is critical for establishing the legitimacy of ecosystem-based GHG Offsets, particularly as they relate to forests. The Environmental Integrity Fund would provide assurances that potential reversals over such a long time would not place an undue burden on either project proponents or buyers.
7. **Timing to Emissions Reductions/Removals.** We also suggest that the government take care to ensure that ecosystem-based projects are able to contribute to GHG reductions with the sense of urgency required. For example, projects that avoid emissions by protecting forests that are both storing large quantities of carbon and sequestering carbon, are preferable to projects promoting restoration with newly planted forests, which would not be making significant contributions to GHG emissions reductions for at least 15 years. Any restoration projects should not result in credits until they begin actually generating net carbon benefits.
8. **Land Ownership** – The policy seems to be silent on the ownership of land that would be eligible. For example, would public lands be eligible for carbon offsets if public land slated for an emission activity (such as conversion from forest to agriculture or urban development) are instead protected? We recommend that public lands should be included, but only if their inclusion does not infringe on the rights of Indigenous peoples living on public lands.

Government has already specified the requirements to ensure additionality and permanence. We also recommend the inclusion of private lands, as long as the projects meet all of the same rigorous criteria listed in the draft offsets policy.

9. **Credit stacking:** The proposed policy recognizes credit stacking, but says it will consider rules for credit stacking in the future so that problems, such as double counting, can be addressed. We believe that credit stacking is important if co-benefits for conservation or sustainable development are to be obtained. Therefore, we believe that it is important to overcome issues such as double counting and to develop the rules for credit stacking from the outset.

Comments on Proposed Process

1. **Stakeholder consultation.** While stakeholders will have an opportunity to provide feedback during protocol development, it is not clear that project proponents will have to listen to stakeholders nor who the stakeholders would be. We recommend that communities and NGOs should be included as stakeholders as well as affected Indigenous groups.
2. **Social and Environmental Impacts.** The proposal suggests that proponents *should* minimize adverse social and environmental impacts and maximize non-GHG related benefits for local communities. We agree with this. However, we recommend a stronger commitment. There should not be negative environmental and social impacts from carbon-offset programs.
3. **Technical Advisory Teams** – We agree with the creation of these teams. However, there needs to be a clearer indication as to the make-up of these teams. The teams need to include all interested experts, including non-government groups, community members, Indigenous knowledge holders. In recognition that technical expertise is often held by organizations with an interest in the creation of an offsets system, we recommend that any conflicts of interest must be stated, transparent, and mitigated in the undertakings of the Technical Advisory Teams.