Submission to the Offsets Consultations,

Environment Canada
Climate Change Economics Branch
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From: John Bennett, Executive Director, Climate Action Network - Canada
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The Climate Action Network - Canada represents more than 100 environmental groups from ten provinces and two territories. The Network has coordinated national and international policy development for Canadian environmental organizations working on climate change for more than 10 years and has participated in all consultations on climate change since 1990.

Despite the difficulties created by Environment Canada, the Climate Action Network- Canada is submiting the following comments on the proposed offset system, but reserves the right to augment and expand its comments without regard to the artificial deadline announced during the consultation sessions.

Lack of Proper Process

The Climate Action Network was not originally invited to participate in offsets consultations by the Climate Change Economics Branch of Environment Canada despite its long history of involvement with climate change consultations. We understand this was result of haste rather than an attempt to exclude. Once this oversight was pointed out, and an invitation was issued, the Climate Action Network attempted to ensure that the environmental community was represented at all the sessions of the consultation.

It must be noted, however, that the so-called "consultations" did not provide sufficient advance notice to allow for appropriate preparation and internal discussion and therefore did not create the basis for real and meaningful participation. Further, the disparity of resources between the stakeholder groups was not recognized in any meaningful way.

The lack of prior notification and the tardy issuing of the discussion paper on the consultation, as well as the time of year has made it very difficult for the environmental community to prepare and participate.

Recommendation:

The Climate Action Network suggests that the Government of Canada develop a process for consultation on climate policy and programs with stakeholders to prevent future misunderstandings.

Introduction

The Climate Action Network is not yet prepared to accept offsets as a valid alternative to real reductions of greenhouse gas emissions from large industrial emitters. Some members of the Climate Action Network will respond with comments on the technical application of an offset system. This paper, however, will focus on some of the fundamental issues the Climate Action Network has identified.

Canada's large industrial emitters are responsible almost half of Canada's greenhouse gas emissions as well as for the emission of smog precursors, toxic chemicals, mercury and other heavy metals.

The Climate Change Plan for Canada failed to acknowledge the degree of responsibility of large industrial emitters and provided a subsidy in the form of a modest 55 megatonne target that the Climate Action Network would suggest is technically and economically achievable without resorting to offsets.

Canada's largest polluters received an additional subsidy in the form of intensity based targets and the 15%, $15 per tonne guarantee provided to the oil and gas industry last December by the government of Canada without any consultation or public discussion. Further, Canadian taxpayers have offered to provide funding for targeted measures and partnerships to large industrial emitters to assist in achieving an additional 37 megatonnes of reductions beyond the 55 megatonnes. The discussion paper provides no economic or technical rationale for providing an additional support to large industrial emitters in the form of an offset system.

It should also be noted that the Climate Change Plan for Canada leaves 60 megatonnes of emission reductions unassigned and that the minus 6% target of the Kyoto Protocol is merely a first step in a long term significant reduction of greenhouse gases. The international Climate Action Network has argued, on the basis of IPCC science, that meeting the objective of the UNFCCC requires an 80% reduction in industrialized countries' GHG emissions
below 1990 levels by 2050 - see "Preventing Dangerous Climate Change," available at http://www.climatenetwork.org.]. Providing easy access to offsets to the large industrial emitters prior to determining how Canada will meet the 240 MT gap could create a significant liability to the Canadian taxpayer.

Canadians expect the large industrial emitters to do their share in reducing greenhouse gas emissions and to receive the co-benefits of cleaner air, less toxic pollution, less mercury and heavy metal deposition as well as the employment and investment opportunities associated with converting industry to less polluting, more efficient processes and products.

An offset system should lead to the maximum investment in the Canadian economy creating jobs and environmental improvements for Canadians. It should not be used to create an artificial market for forset or agricultural sinks. The system described in the discussion paper will potentially lead to very new few

jobs in forestry and agriculture and ignores the potential economic potential of entrepreneurial response to a credit creation system based on reducing emissions.

Any offset system designed by the government of Canada must not:

- **Provide or appear to provide any additional subsidy to large industrial emitters who can well afford to meet their obligations to future generations;**
- **Delay, prevent or jeopardize the achievement of the other environmental goals of Canadians such as clean air; or**
- **Jeopardize Canada's ability to reach emission targets under Kyoto and, perhaps more importantly, impair Canada's ability to make greater reductions in subsequent commitment periods.**

Looking at Alternatives

The Climate Action Network was pleased to see paragraphs [15] and [17] in the discussion paper which refer to the need for "public support" of the offset system and the possibility of turning to alternative approaches should public support not be forthcoming. The lack of any study of an alternative to the limited proposals presented suggests that Environment Canada is not taking paragraphs [15] and [17] seriously.

The Climate Action Network, as far as it is able to speak on behalf of Canadians represented by its 100 member groups, wishes to state that there is no public support for this offset system. This includes most of the major industry associations in Canada who only last fall attacked emissions trading as a disguised carbon tax and said it would lead to an outflow of Canadian capital and damage Canadian competitiveness. A position in opposition to trading much stronger than that taken by environmentalists. Unfortunately, the Government of Canada did not take the latter's views into account when preparing the Climate Change Plan for Canada nor in the subsequent six months.

The Climate Action Network, in association with the David Suzuki Foundation, presented an alternative road map to exceeding Canada's Kyoto targets. The study, entitled Kyoto and Beyond, was prepared by Torrie Smith Associates. It outlines how Canada, through the effective use of regulation and incentives, can reduce greenhouse gas emissions by 50% by 2030 while saving billions and exceed the Kyoto target by 40 megatonnes in 2012. The Climate Action Network requests that Kyoto and Beyond provide the basis of an alternative approach by the government of Canada and work begin on this approach immediately.

Recommendation:

The Climate Action Network requests that work on alternative approaches begin immediately to allow the fair and open comparison of all possible options.

Clean Air

> *"Please don't allow Ontario Power Generation to use offset as an excuse to keep burning dirty coal."*
>
> *Jack Gibbons, Ontario Clean Air Alliance*

Allowing coal fired power plants to buy credits in an offset system limited to sinks and landfill gas will inflict air pollution and heavy metals on future generations guaranteeing that hundreds of thousands of Canadians will suffer unnecessary ill health and cost billions of dollars in health care and lost productivity.

There is no need to allow coal fired power plants in an offset system. A Natural Resources Canada (NRCan) study of the potential reductions achievable from coal fired power plants found that as much as 45 megatonnes of reductions could be achieved at less than $10 per tonne[1]. These reductions would spark innovation and employment in the economy as well as significantly improving air quality. Replacing these real and cost effective reductions with forest and agricultural sink credits would undermine the environmental integrity of Canada's Climate Change Plan.

Recommendation:

The Climate Action Network suggests that coal fired power plants not be allowed to purchase offsets until all of the less than $10 per tonne reductions identified by the NRCan study have been achieved.

Regulation Versus Trading and Voluntary Agreements

The Climate Action Network does not wish to impair the creativity and ingenuity of Canadians in reducing greenhouse gas emissions and is open to a discussion of all possibilities. However, it must take issue with the unsubstantiated assertions in the Discussion Paper that regulation is expensive and less effective than other means of achieving environmental objectives such as trading schemes. The Discussion Paper takes this notion as a given without providing any evidence. On the contrary, research by the Climate Action Network and other organizations suggests that regulation is a fair and successful means of achieving environmental objectives that need not negatively impact competitiveness. Regulation should not be rejected out of hand on the basis provided in the Discussion Paper.

Ironically, the Discussion Paper's rejection of regulation is in stark contrast with its outlined need for an extremely complex set of controls, rules, registration and oversight to govern an offset system.

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[1] Construction and Analysis of Sectoral, Regional and National Cost Curves of GHG Abatement in Canada Part IV: Final Analysis Report

The case in point is the capture and destruction of landfill gas. These point sources for the most part are owned or controlled by municipalities across Canada and could be regulated as easily as the large industrial emitters, perhaps more easily. The Discussion paper provides no reference to any study or work done to indicate the relative merits of regulation or trading. It merely assumes trading to be the better path. The Climate Action Network, in association with the Pembina Institute, has looked at regulation versus voluntary schemes of environmental regulation and the result suggests regulation is fairer and more effective.

Intuitively, it would seem that requiring the capture and destruction of landfill gas through regulation would be both more efficient and successful than a complicated system of buyers and sellers of credits requiring hundreds of individual deals. The discussion paper provides no research or reference to indicate which approach might be the most effective. It merely takes an unsubstantiated position in support of credit trading.

Recommendation:

The Climate Action Network suggests that more work be done by Environment Canada to determine whether trading or voluntary approaches are superior to regulatory instruments prior to including landfill gas in the offset system.

Permanence

The questions surrounding the permanence of sinks continue to create difficulties. The Minister of Environment in his attempts to justify the use of sinks has been known to say, "A tonne is tonne is tonne." However, how do you ensure that the creation of credit by storing carbon in vegetation is equal to credit for not emitting carbon? The following quote demonstrates that offsets are not as simple as they appear. This is especially so with respect to the non-permanence of sinks.

> "Specific options for modalities relating to non-permanence were proposed in the options paper on modalities for addressing non-permanence 2 prepared by the UNFCCC secretariat. The options were insurance to cover possible losses of carbon, credit reserves where CERs (certified emission reductions), ERUs (emission reduction units), AAUs (assigned amount units) and/or RMUs (removal units) are held for compensation of any possible loss, buffers, temporary certified emission reductions (tCERs) with an expiry date and temporary net credits which places liability for any reversal of removals with the holder of the credit. At an inter-session workshop 3 for Parties to exchange views, all these options and their implications were discussed. In establishing an insurance scheme for CERs, issues raised included nature of compensation in case of a loss, the accreditation of designated insurance companies and the timing of insurance. Issues surrounding the use of tCERs were on their expiry date, re-issuance and possible implications for registries. Buffers and credit reserves were considered as risk management tools rather than stand-alone options for addressing non-permanence."[2]

[2] Can Permanence be Insured? Consideration of some Technical and Practical Issues of Insuring Carbon Credits from Afforestation and Reforestation, Jenny Wong and Michael Dutschke, DISCUSSION PAPER 235,

Clearly the use of offsets will be complicated and expensive. If sinks in the proposed offset system in Canada are to be of any value, they will have to be scientifically verified by third parties, insured against fire and natural disasters, and be subject to full public scrutiny before they are awarded. They must also be considered as temporary.

Recommendation:

The Climate Action Network would have to concur with the Vancouver breakout group on forests when it recommended that sink credits be temporary if allowed at all.

Renewable Energy

The Climate Action Network sympathizes with the distress of the renewable energy industry at being excluded from the offsets system, but understands that the Climate Change Plan for Canada envisages support for the industry through targeted measures and therefore cannot be included in the offset scheme without incurring double counting.

The deployment of renewable energy technology is not taken seriously by the Climate Change Plan for Canada. The tiny production tax incentive provided by the federal government pales when compared to the ongoing support of the fossil fuel and nuclear industry in Canada. Including renewable energy in the offset system would have far greater economic and environmental benefits for Canada than the use agricultural and forest sinks.

The government of Canada should reconsider its position on renewable energy and seek a means of deploying beyond the goal of 10% of new electricity production. Should we not be planning to replace existing generation with renewables? There is no technical or economic impediments to making the goal 100% which could be achieved through regulation, emissions trading or direct investment.

Recommendation:

The Climate Action Network suggests there be further consultation with stakeholders and industry before permanently excluding renewable energy from the offset system or incorporating it without an alteration to the large emitters target of 55 megatonnes.

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