



## **Re Feedback on the federal Output-Based Pricing System**

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Submitted by email to [ec.tarificationducarbonatecarbonpricing.ec@canada.ca](mailto:ec.tarificationducarbonatecarbonpricing.ec@canada.ca)

1. We are pleased to provide Environment and Climate Change Canada (ECCC) with the present comments in response to its request<sup>1</sup> for feedback in the context of the Review of the federal Output-Based Pricing System (OBPS) Regulations. These comments focus on the need to change the treatment of Canada's forest products industry and biomass combustion under the OBPS, but they do not imply that we necessarily agree with other aspects of the OBPS as it is currently designed and implemented.
2. According to Canada's latest national inventory report (NIR), the combustion and disposal of wood harvested from the country's "managed forest" resulted in the emission of 126 megatonnes (Mt) of carbon dioxide equivalent (CO<sub>2</sub>e) in 2018 – 18% of Canada's total reported greenhouse gas (GHG) emissions.<sup>2</sup> The equivalent of 165 Mt CO<sub>2</sub> were taken out of the managed forest in the form of wood, but around 40 Mt of this were deferred to future years' emissions in view of the time taken for solid wood products to release their carbon.<sup>3</sup> The NIR reported that growing trees in the managed forest removed in the same year 140 Mt CO<sub>2</sub>e from the atmosphere,<sup>4</sup> but there are serious concerns that this figure exaggerates the amount of CO<sub>2</sub> removal attributable to human activities as opposed to natural processes.<sup>5</sup>
3. Given the large size of the figures cited in paragraph 2, policies that affect the way in which Canada's forests are managed can make a considerable negative or positive impact on the country's effort to combat climate change. **We therefore believe that ECCC should place a high priority on re-examining the treatment of Canada's forest products industry, as well as biomass combustion in general, in the country's carbon pricing framework.**
4. In January 2018, ECCC stated in regard to the OBPS: "At the outset, CO<sub>2</sub> emissions from the combustion of biomass will not be subject to carbon pricing. The intent is to remain aligned with the treatment of biomass under Canada's National Greenhouse Gas Inventory. At present, the Inventory only accounts for emissions of methane and nitrous oxide resulting from biomass combustion."<sup>6</sup> However, the Inventory does now account explicitly for CO<sub>2</sub> emissions from the combustion of biomass as part of emissions from harvested wood products, and balances this by also accounting for the removal of CO<sub>2</sub> from the atmosphere by growing trees.

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<sup>1</sup> <https://www.canada.ca/en/environment-climate-change/services/climate-change/pricing-pollution-how-it-will-work/output-based-pricing-system/review.html>, accessed March 24, 2021.

<sup>2</sup> Environment and Climate Change Canada, *National Inventory Report 1990–2018: Greenhouse Gas Sources and Sinks in Canada* (2020), Part 1 p.7,141.

<sup>3</sup> *Ibid.*, p.154.

<sup>4</sup> *Ibid.*, p.141.

<sup>5</sup> Nature Canada analysis (2021, to be published).

<sup>6</sup> <https://www.canada.ca/en/services/environment/weather/climatechange/climate-action/pricing-carbon-pollution/output-based-pricing-system.html>, accessed March 24, 2021.

5. Deeming CO<sub>2</sub> emissions from the combustion or disposal of biomass to be zero – as Canada’s large emitters are allowed to do under the current OBPS – assumes that CO<sub>2</sub> is being removed from the atmosphere by trees or other plants at exactly the same rate. In reality this can be far from the truth of what the atmosphere sees. For example, an entity with poor forest management practices could be responsible for the production of wood products resulting in CO<sub>2</sub> emissions that far outweigh CO<sub>2</sub> removals attributable to that entity’s forestry operations. Exempting such emissions and removals from carbon pricing means that they are not subject to the appropriate incentives to reduce emissions and increase removals – harming the effectiveness of Canada’s overall emissions reduction effort.
6. In light of the above considerations, **we call on the Government to include all major CO<sub>2</sub> emissions sources and sinks associated with the forest products industry – notably large-scale forest management activities and harvested wood products including biomass combustion – in the OBPS Regulations when they are next revised. ECCC should keep its commitment to align the OBPS with the National GHG Inventory by ceasing to exempt emissions of CO<sub>2</sub> and other GHGs from biomass combustion from carbon pricing under the Regulations, regardless of the industry sector in which biomass combustion occurs.**
7. In our view it is no longer defensible to exempt forest products industry operations that cause large carbon flows from the carbon pricing regime that is now accepted as normal for all other industry sectors that contain major GHG sources. In particular, **we believe that it would be unjustifiable to allow large-scale forest management to receive offset credits – an opt-in incentive-based policy – instead of the comprehensive and rigorous regulatory approach that is rightly applied to industry in general.** We note that New Zealand’s Emissions Trading Scheme make those responsible for deforestation liable to pay a carbon price in respect of the resulting emissions.<sup>7</sup>
8. We recognize that quantification of CO<sub>2</sub> emissions/removals from forest management and harvested wood products is challenging, but Canada is a leader in this field and has implemented a sophisticated quantification approach for the sector in its National GHG Inventory. The Government’s CBM-CFS3 carbon budget model, as used at the national level for the Inventory, is also offered for use by forest managers at the corporate level.<sup>8</sup> We see no compelling reason why a similar approach could not be implemented at an entity/facility level for use in the OBPS.
9. We also recognize that as the forest products sector involves large CO<sub>2</sub> sinks as well as sources, emissions intensity standards for the sector under the OBPS will likely need to be set differently than the current approach of a percentage reduction below recent performance. Some emissions intensity standards for the sector under the OBPS might need to be negative, but a negative standard should not pose any problem in a system where surplus credits are issued for performance that is better than the standard, and the submission of compliance units or payment is required for performance worse than the standard.
10. We look forward to discussing these proposals with ECCC in greater detail as the department moves forward with its review of the OBPS as well as its work on the proposed federal GHG Offset System.

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<sup>7</sup> <https://www.mfe.govt.nz/ets>, accessed March 25, 2021.

<sup>8</sup> <https://www.nrcan.gc.ca/climate-change/impacts-adaptations/climate-change-impacts-forests/carbon-accounting/carbon-budget-model/13107>, accessed March 24, 2021.