



environmental
defence



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Re: Comments on the proposed Greenhouse Gas Offset Credit System Regulations (Canada)

Dear Ms. Mercer,

1. We are pleased to provide Environment and Climate Change Canada (ECCC) with the present comments on the proposed Greenhouse Gas Offset Credit System Regulations (Canada). These comments focus on (i) general concerns about offsets; (ii) the proposed regulations' definition of additionality; and (iii) the issuance of offset credits in respect of forest carbon flows. What follows should not be taken to imply that we necessarily agree with other aspects of the federal offset system as currently proposed.
2. Offset systems do not, in general, reduce overall greenhouse gas (GHG) emissions. In other words, the level of GHG emissions under a regulated carbon pricing policy that includes an offset system will, in general, be at best equal to the level of GHG emissions under the same policy with the offset system removed. This is because each offset credit issued allows a regulated GHG emitter either (i) to emit more or (ii) to pay less money into a fund that should be devoted to reducing emissions. Applying the same logic, if offset credits do not correspond to real emission reductions or removal enhancements because of problems such as lack of additionality, leakage, and lack of permanence (see paragraphs 8, 10 and 11), then offset systems will, in general, *increase* overall GHG emissions.
3. In addition, unless offset credits are purchased by governments and retired (see paragraph 7), an offset system removes the opportunity for governments to secure, from activities eligible for offset credits, emission reductions or removal enhancements additional to those secured through regulated carbon pricing applied to other sectors. For example, if a new practice to reduce emissions from forests is made eligible for offset credits, then emission reductions resulting from that practice will generally become a subset of the reductions achieved by large emitters subject to regulated carbon pricing; the emission reductions from the new practice will no longer be available as additional reductions that could have been achieved by adding forest carbon flows to regulated carbon pricing or implementing alternative policies such as sectoral regulations (see

paragraph 6). This removal of emission reduction opportunities is a considerable problem at a time when governments urgently need to secure maximum feasible GHG reductions in all sectors.

4. The arguments outlined in paragraphs 2 and 3 demonstrate that offset systems are a serious risk to Canada's ability to reduce its overall GHG emissions as quickly and as deeply as feasible, which is necessary to follow a credible path to Canada's 2030 emissions target and net-zero emissions by 2050. The magnitude of that risk will increase with the volume of offset credits issued. Both that volume and the resulting risk could be very large, given that regulated carbon pricing systems allow large GHG emitters to submit offset credits for the bulk of their excess emissions above regulated limits (notably, the current federal Output-Based Pricing System Regulations allow 75% of excess emissions to be covered by offset credits). Such a large volume of offsets could considerably reduce (i) the carbon price applying to the bulk of large emitting sectors' emissions and (ii) the resulting incentive for those sectors to make the necessary investments in reducing their own emissions.
5. The proposed Offset Regulations' provision for biological sequestration projects to receive offset credits for up to 100 years would further jeopardize Canada's ability to achieve net-zero GHG emissions by 2050. Nature-based sequestration activities have the potential to be true negative emissions options needed to balance out GHG sources that cannot reasonably be eliminated, but that potential will be squandered if a significant proportion of those potential negative emissions are used instead to create offset credits that allow regulated emissions sources to continue emitting above the unavoidable minimum level.
6. Regarding the existence of policies that can be alternative, superior approaches to emissions reduction or removals enhancement in sectors currently proposed as suppliers of offset credits (see paragraph 3), sectoral regulations are an obvious such alternative. Notably, regulations could clearly be used (or used more ambitiously than presently envisaged) to reduce emissions (or enhance removals) from refrigeration, forest management and landfills – sectors that ECCC is currently proposing to prioritize for offset credits. Regulations would not only avoid the serious problems described in paragraphs 2 and 3, but also ensure that all emitters in these sectors take action to reduce their climate impact, not just those who voluntarily pursue offset projects. **If ECCC believes that specific activities in these sectors should be covered by offsets rather than by regulated carbon pricing, then we believe it must publish a compelling rationale for why that should be so.**
7. Offset systems can reduce overall GHG emissions in the special case where offset credits are purchased by governments and retired. This could be a useful approach to providing financial incentives to reduce emissions in sectors in which it is clear that no superior alternative policies to reduce emissions are available.
8. However, experience with offset systems shows that even when best efforts are made, it is difficult to avoid the risk of issuing offset credits for projects that do not generate real emission reductions or removal enhancements, in which case an offset system will increase overall GHG emissions (see paragraph 2). In particular, it is difficult to ensure that offset projects (i) are additional to what would have occurred in the absence of the offset system; (ii) do not result in emissions increasing outside the project boundary

(leakage); (iii) permanently remove carbon from the atmosphere in the case of projects to create or increase carbon sinks.

9. In view of the considerations set out in paragraphs 2–8, **we have strong reservations about including offset systems in Canada’s suite of policies to reduce GHG emissions. These reservations apply both to (i) a federal offset system and (ii) federal government acceptance as equally stringent to federal carbon pricing policy, under the Greenhouse Gas Pollution Pricing Act, of provincial carbon pricing policies that include offset systems.**

10. Regarding additionality, the definition of “baseline scenario” in the currently proposed offset regulations would allow the issuance of credits that are not additional and that would accordingly make the offset system tend to increase overall GHG emissions. The currently proposed regulations define an offset project baseline as “a hypothetical reference case that best represents a conservative estimate of business as usual conditions for GHG reductions or removals for the GHG sources, sinks and reservoirs that would have occurred in the absence of the project”. This fails to ensure additionality because the project could occur in the absence of the offset system. **The definition of “baseline scenario” in the proposed Offset Regulations should therefore be changed to replace “in the absence of the project” by “if the project were not eligible to receive offset credits”.** (We note that the Regulatory Impact Analysis Statement, in discussing “the extent to which the proposed regulations would lead to net GHG reductions,” defines these as “incremental GHG reductions relative to baseline emission levels in the absence of the federal offset system”. To ensure additionality, the same definition of baseline scenario – one in which there is no offset system, i.e. projects are not eligible to receive offsets credits – must be used in the regulations.)

11. The proposed Offset Regulations further fail to ensure additionality by proposing to issue offset credits to projects initiated several years ago, namely those with a start date as early as January 2017, implying a decision to invest significantly earlier than that. For such projects it is extremely unlikely that the baseline scenario ensuring additionality – the one in which the project was not eligible to receive offset credits (see paragraph 10) – is any different from the project scenario. In other words, **projects where the decision to invest was taken before offset regulations were finalized are very likely not additional; we therefore believe that the Offsets Regulations should exclude such projects.**

12. On the topic of forest carbon flows, Canada’s latest national GHG inventory estimates that the country’s managed forest land area removed a net amount of 121 megatonnes (Mt) of carbon dioxide (CO₂) from the atmosphere in 2019,¹ but that wood harvested from this area emitted 143 Mt CO₂ to the atmosphere in the same year² (both these figures include the effects of forest conversion). There is additionally a serious concern (which we have brought to the attention of officials at Pollutant Inventories and Reporting, ECCC) that the 121 Mt figure exaggerates the amount of annual CO₂ removals attributable to human activities by as much as 80 Mt.³

¹ The 121 Mt is deduced as 134 Mt of removals (Environment and Climate Change Canada, *Common Reporting Format Tables* (2021a), Table 4) minus 13 Mt of forest conversion emissions (Environment and Climate Change Canada, *National Inventory Report 1990–2019: Greenhouse Gas Sources and Sinks in Canada* (2021b), Part 1 p.171).

² Environment and Climate Change Canada (2021a), Table 4.G.

³ Nature Canada, draft issues paper (2021).

13. Given the considerations above, especially those in paragraphs 3, 5 and 12, we believe that it is not defensible to exempt forest products industry operations from the regulated carbon pricing regime that is now accepted as normal for all other industry sectors that contain major GHG sources. **We therefore believe that all major anthropogenic sources and sinks of forest carbon – notably large-scale forest management activities and harvested wood products including biomass combustion – should be included in the federal Output-Based Pricing System (OBPS) Regulations when they are next revised; and that large-scale forest management projects should accordingly not be eligible to receive offset credits.**
14. We recognize that quantification of carbon 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.⁴ We see no compelling reason why a similar approach could not be implemented at an entity/facility level for use in the OBPS.
15. **If ECCC believes that forest carbon flows should be covered by offsets rather than by regulated carbon pricing, then we believe it must publish a compelling rationale, including detailed supporting analysis, for why that should be so. In the absence of such a rationale, and as long as the revision of the OBPS Regulations is pending, we believe that it would be premature to proceed with the development of any offset protocols relating to forest carbon.**
16. We look forward to discussing further with ECCC our views on these issues as the department moves forward with both its work on the proposed federal GHG Offset System and its review of the OBPS.

Sincerely,



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Executive Director
Nature Canada



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National Program Manager
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Anthony Swift
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⁴ <https://www.nrcan.gc.ca/climate-change/impacts-adaptations/climate-change-impacts-forests/carbon-accounting/carbon-budget-model/13107>, accessed March 24, 2021.