

KEY POLICY ISSUES TO RESOLVE WITH RESPECT TO SINKS

Peter Graham
Canadian Forest Service / NRCan

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OUTLINE

- **Lessons learned on what is required to develop market-based programs: Experience from the development of Canada's offsets trading system**
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Focusing on sinks *(with a forestry bias)*

1. Baseline determination
2. Addressing non-permanence
3. Pooling
4. Ownership
5. Other key policy issues

Key Policy Issues: Baselines (1)

- **DEFINITION**: A baseline is the scenario that reasonably represents the anthropogenic emissions by sources and removals by sinks that would occur in the absence of the project activity.
- **2 Basic approaches for sinks projects:**
 - Top-down or sectoral
 - Use when sufficient data are available to determine a baseline that would be reasonably applicable to a large area (e.g. region or ecozone), OR to a large number of potential projects (e.g. switch activity from full-till to no-till).
 - Project-by-Project
 - Use when project-specific site conditions and/or pre-project land-use activities significantly affect C stock estimates AND vary significantly from site to site.

Key Policy Issues: Baselines (2)

- Project-Specific Baseline Quantification includes
 - Natural and anthropogenic GHG emissions and removals
 - Type of practice(s) and degree of implementation
 - Trends in practices and applicable technologies
 - Regulations and indirect climate change measures
- Converting management practices and regulations into C stock impacts is a significant challenge
 - Gaps in scientific research
 - Links to other policy issues (early actors, additionality)

Key Policy Issues: Baselines (3)

Re. Project-Specific Baselines Quantification

- Ways to address the challenges:
 - High degree of flexibility in baseline quantification methodology (*subject to baseline definition, and equitable and verifiable standards*)
 - Onus on project proponents to justify choice of methodology
 - Periodic, mandatory re-assessment of baseline methodology and determination
 - Develop guidance documents that identify BL elements and issues that must be addressed

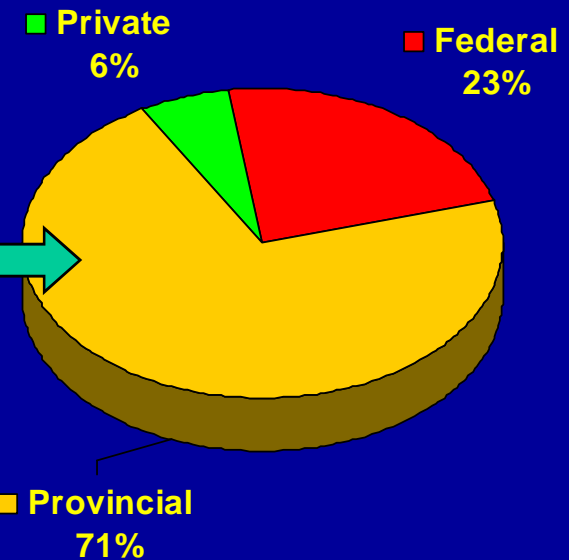
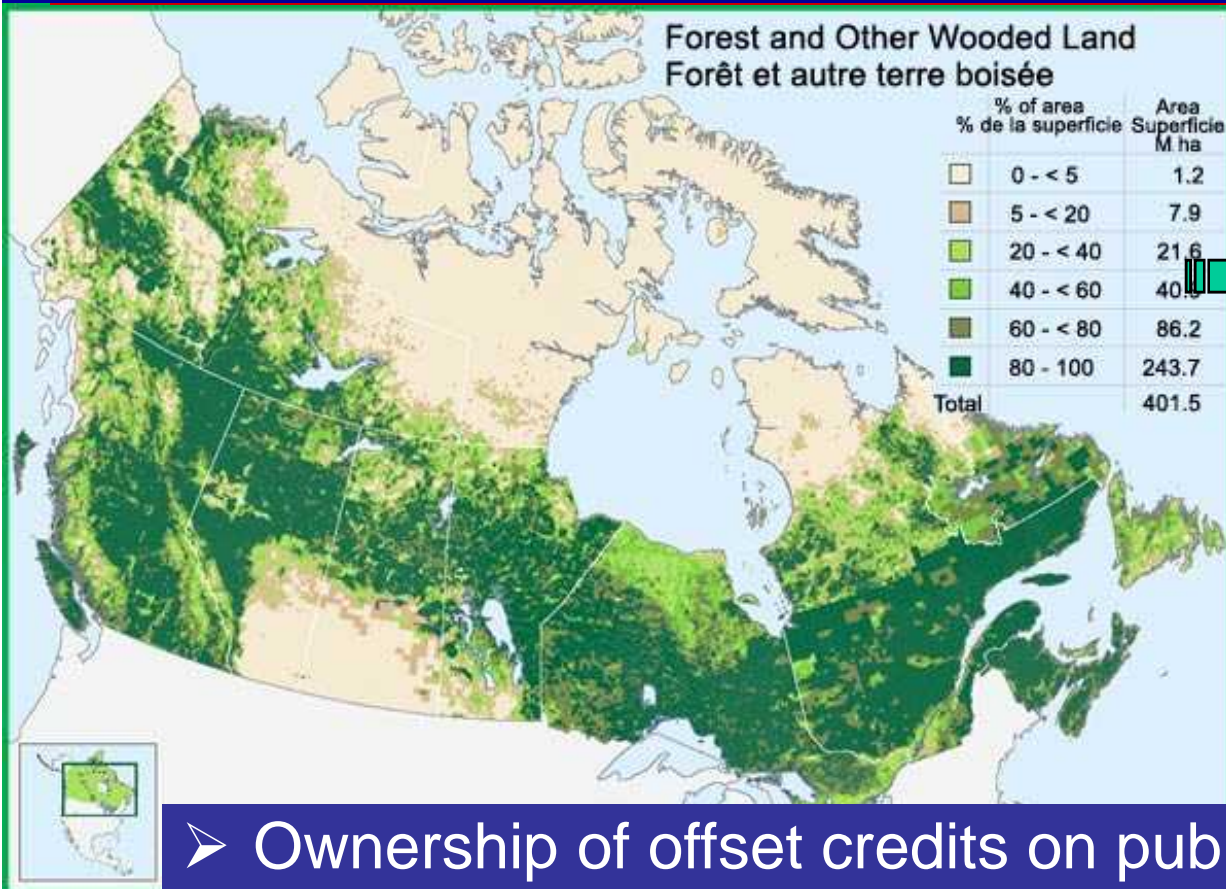
Key Policy Issues: Permanence

- Allocation of liability
 - Government / Seller / Buyer
- Two currencies
 - Permanent credit
 - Government and/or Seller liability
 - Balancing Gov't liability and Seller participation
 - Risk management requirements vs. incentives
 - Temporary credit (= *offset rental*)
 - Buyer liability (mandatory replacement)
 - Price substantially lower than regular (permanent) credit
 - Government liability from Buyer bankruptcy

Key Policy Issues: Pooling

- Aggregation of individual project activities to reduce transaction costs
- Pool treated as one project in the System
 - Measurement & monitoring requirements would be project/pool specific
- No need for System to specify how pool must be set up or operated
 - E.g., entry / exit rules; management of reversal liability; etc.

Key Policy Issues: Ownership



- Ownership of offset credits on public lands needs to be negotiated between forest managers / licensees and provinces

Other Key Policy Issues

- Decision on including Forest Management in Kyoto Accounting (Article 3.4)
- Uncertainty:
 - How much is acceptable?
 - Appropriate use of models
- How Canadian ETS links to international ETS'
- Leakage
- Development of standards and protocols

A scenic landscape photograph showing a wide mountain valley. In the foreground, several evergreen trees are visible, including a prominent one on the right. The middle ground features a winding river or lake that flows through the valley, surrounded by dense forests. The background consists of rolling mountains under a bright blue sky with scattered white clouds. The overall scene is peaceful and natural.

Email: pegraham@nrca.gc.ca