

Forest Carbon Update

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Prepared by the Sierra Club of Canada

DRAFT

This note is intended to provide current information regarding policy developments that will influence how implementation of the Kyoto Protocol might affect forests and forest management in Canada. If you have comments, suggestions, information for future updates, or wish to be added to or removed from the distribution list, contact martinvm@sierraclub.ca

Background

The Kyoto Protocol requires industrial countries that ratify the Protocol to report on gains or losses in carbon due to afforestation, reforestation and deforestation. Canada predicts that this will result in a net debit of about 15 Mt in the first commitment period (2008-12), due primarily to forest conversion. The Kyoto Protocol also allows countries to choose whether or not to include carbon gains and losses from forest management in its Kyoto accounting framework. Canada has predicted that forest management will contribute a credit of about 35Mt, based upon “business as usual” (BAU) projections. There is quite a bit of uncertainty about this figure (mainly because of the unpredictable future impacts of fires) and it is far from certain that Canada will elect to include forest management (the decision is not required until 2006). Canada has stated that it intends to allow forest carbon sequestration benefits to be sold or traded as “offsets.”

The inclusion of forest sinks in the Kyoto Protocol includes both opportunities and risks. The opportunity for forest conservation is that there is a good argument (with modeling tools to support it) that forest conservation will, on average, store more carbon on the forest landscape over time than forests that are intensively managed. Depending on how Canada develops its offset trading regime, there may be financial incentives for practising forest conservation. The risks are that objectionable projects may be recognized (as intensive plantations currently are), and that a focus on forest sinks might undermine effective action to achieve real greenhouse gas emissions reductions.

Canada undertook a national consultation on offsets trading in the summer of 2003, based on a discussion paper that was roundly criticized by both environmentalists and industry. That discussion paper, and a report on the consultations, is available at <http://www.climatechange.gc.ca/english/offsets>.

Most NGOs oriented towards addressing climate change have opposed the broad inclusion of forest sinks in the Kyoto Protocol, but are prepared to accept that they are now part of the Protocol. The details of the rules for carbon offset trading in Canada will be very important. At the same time, some forest conservation groups are interested in how Kyoto implementation might help to encourage and/or facilitate forest conservation, while wary of the potential for negative impacts (such as an increase in intensive plantations).

Current status of offsets policy development in Canada

Environment Canada has published a deck outlining its latest thinking on the offsets system, at http://www.climatechange.gc.ca/english/offsets/nfsc_presentation.asp. Natural Resources Canada has also published an assortment of discussion papers on design elements of the Large Final Emitters system (who will be the domestic purchasers of offsets) at http://www.nrcan-rncan.gc.ca/lfeg-ggef/English/papers_en.htm.

Based on information in those papers it is possible to venture some predictions, although no decisions have been taken.

- The offsets trading regime – initially limited to forest and agricultural sinks – will likely be expanded to include landfill gas capture, and consideration is being given to including renewable energy and demand-side management initiatives (which had been strongly advocated for by several NGOs).
- Forest offsets are projected to play only a modest role (4Mt or more, compared with 10Mt for agriculture, 8-10Mt for landfill gas, and 2-8Mt for others).
- Attention will need to be paid to ensure that awarded credits are incremental to those resulting from business as usual or from other federal climate change measures. Baselines for forest projects will be established on a project-by-project basis.
- Unlike emissions reduction projects, sinks projects are temporary. As a result, there will be both temporary and permanent credits issued. Temporary credits will have to be replaced when they expire, and therefore will trade at a discounted price. It is not clear yet whether or not Canada will adopt the same rules regarding permanence that were adopted by the Conference of the Parties to the Framework Convention on Climate Change.

Next steps for offsets policy development:

- A design proposal for provincial/territorial and stakeholder review in the fall of 2004
- Ministerial sign-off on broad system design by late 2004/early 2005
- Elaboration of detailed rules in 2005-06
- System fully operational in 2006

Also imminent is a decision by the Pilot Emission Removals, Reductions and Learnings (PERRL) initiative on its April 2004 call for sink projects. This is a program to identify emission trading opportunities and gain experience. At least one forest conservation proposal was submitted.

Plantations and “Forest 2020”

The federal “Forest 2020” program promotes the establishment of fast-growing high-yield plantations on non-forested lands, designed to produce fibre for the forest industry and, while they are growing, sinks credits under the Kyoto Protocol. The program emphasis has shifted away from the initial concept, which was to promote forest conservation at the same time. Program delivery is being handled by the provinces.

Bioenergy

The Canadian Bioenergy Association and the Forest Product Association of Canada are hosting a workshop in Vancouver on September 13, 2004, on the sustainability of bioenergy. See www.canbio.ca for further details.

TransAlta invests in CDM methane project

TransAlta Corporation (the Calgary-based power producer) has recently made a deal to purchase carbon credits from a Chilean hog farm. The deal, a business-to-business arrangement that has the approval of both countries, is worth about \$9 million U.S. for credits totalling 1.75 Mt of greenhouse gas reductions, principally from the reduction and capture of methane emissions. Under international CDM carbon accounting rules projects such as this may be more attractive to investors than forestry projects, since in this case the credits are permanent, while forestry credits are only temporary and must be replaced.