



Business Council of
British Columbia

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Via Email: os-scc@ec.gc.ca
(Original to Follow by Mail)

Mr. Dean Stinson O’Gorman
Manager, Canada’s Offset System for Greenhouse Gases
Environment Canada
351 St-Joseph Blvd 19th Floor
Gatineau QC K1A 0H3

Dear Mr. Stinson O’Gorman:

Re: Canada’s Offset System for Greenhouse Gases

The Business Council of British Columbia is pleased to provide comments on the federal government’s recently gazetted Offset System for Greenhouse Gases, comprised of the documents *Program Rules and Guidance for Project Proponents* and *Program Rules for Verification and Guidance for Verification Bodies*.

By way of background, the Business Council of BC, established in 1966, is an association representing approximately 260 large and medium-sized enterprises engaged in business in British Columbia. Our members are drawn from all major sectors of the provincial economy. Taken together, the corporate members and the associations affiliated with the Business Council are responsible for roughly one-quarter of all jobs in British Columbia.

The observations which follow are general in nature and reflect the diverse sectoral membership of the Business Council. Some of our affected member organizations (individual companies and their industry associations) may provide comments on specific offset-related issues relevant to them.

A Disconnected Offset System

The philosophy behind the development of an offset system is generally underpinned by the existence of a regulatory framework for the mandatory reduction of greenhouse gases by industrial and commercial emitters. In the absence of such a framework, assessing the utility of an offset system is problematic. A robust, effective offset system that is clearly linked to a carbon trading regime can help covered emitters meet their GHG reduction obligations in a cost-effective manner, while spreading risk across various options and over a number of years. An offset system linked to the carbon compliance market can assist with price stability



and liquidity of that market. As presently drafted, the federal government’s proposed offset program does not provide sufficient assurances to project proponents to allow them to minimise or even manage risk, nor does it explain how credits may be available for compliance in the context of a functioning carbon market.

While it may be beneficial for emitters in sectors that will be covered by an eventual regulatory framework (such as a cap & trade scheme) to be able to access an offset system in advance of regulation, the offset system contemplated in the gazetted federal documents appears to be disconnected from a regulatory program. There are significant gaps in information and regulation that will cause project proponents to be reluctant to invest in offset projects. Uncertainty as to how offset credits would be recognised and accepted under a carbon cap system will act as a significant impediment to uptake by project proponents in covered sectors.

Regulatory and Administrative Burden

Uncertainty as to the future acceptability of offsets under a cap & trade system is compounded by what we would describe as an extremely burdensome set of regulatory requirements concerning offset protocol development and verification. In our judgement, interested businesses will be very reluctant to invest in offsets under such a regime given the substantial costs likely to result from regulatory compliance and the complex administrative rules governing projects. For many firms, these costs will simply outweigh any economic value that a usable credit from an eligible offset project might generate. In addition, it must be noted that most of the associated compliance and administrative costs would be borne upfront prior to the launching of a project, while the benefits (uncertain as they remain, given the lack of connection to any carbon reduction regulatory framework) would only be received at the end – thus creating further disincentives to invest in offsets.

Ownership

There is a lack of clarity around ownership of a credit (once issued), including how to defend against a claim and the implications of transferring of credits. Project proponents are unlikely to invest in projects that are subject to an eight year audit period (which some proponents view as a liability period), particularly if liability attaches to the purchaser of a credit. This will almost certainly reduce the liquidity of any offset and/or carbon market. One possible approach to addressing issues around ownership of offset credits is to refer to language in the Waxman-Markey Bill (H.R. 2454, passed by the United States House of Representatives on June 26, 2009): “Legal Status of Offset Credit: An offset credit does not constitute a property right.”¹

¹ See United States House of Representatives, *American Clean Energy and Security Act of 2009* H.R. 2454, Section 732.



Scope

Turning to the scope of the offset system, the Business Council is concerned about the signal that is being sent by the proposal to include wind power. First, it seems problematic for Canada to propose including a form of electricity generation, which is a covered sector in most climate change programs around the world. Second, we do not believe the government should single out one source of renewable electricity to the exclusion of others. The end result could be the development or siting of wind projects at the expense of more appropriate options given the geography or electricity resource mix of a given jurisdiction. Further, the identification of the priority project types in the documents excludes, at least initially, access to offset credits from a broad range of activities in non-covered sectors of the economy. This measure, combined with the onerous protocol development procedure described in the documents, will dampen investment, resulting in a more limited offset credit market than would otherwise be the case.

Start Dates for Eligibility and Crediting

The changed start and crediting dates for offset projects is troublesome to a number of Business Council members, some of whom have a material interest in projects that have begun to operate and would have been eligible to earn credits under the previous 2000 start date. Further, there may be adverse competitiveness impacts stemming from the development of new technologies that are of value in generating early offset credits (such as subterranean carbon capture and sequestration) if Canada's start date for offset project eligibility is significantly different than that of its major trading partners (for example the Waxman-Markey legislation in the United States proposes to accept early offset credits from January 1, 2001). Several Business Council members have also expressed concern about "stranded" investments in offset project protocols and types that were undertaken in good faith under Environment Canada's previous proposed national offsets program (August 2008).

Environment Canada is urged to revisit the revised start dates in the proposed system to allow those projects to proceed which would have qualified for a start date of January 1, 2000, and for a crediting date beginning January 1, 2008.

Administrative Cost

Finally, some of our members have expressed concern over Environment Canada's proposed model of operation of the program. While a cost recovery basis is not unwarranted, the onerous and costly requirements around protocol development and verification, including compliance assessments by Environment Canada, could end up accounting for a disproportionate share of total project development costs. The absence of information on what it may cost to administer the program makes it difficult for project proponents to determine whether it makes sense to participate in the system.



In conclusion, the Business Council of BC believes that Canada's Offset System, as presently envisaged in the gazetted documents, is unlikely to foster a robust domestic offset market. Government is urged to engage in further consultation with industry and the provinces to establish a workable offsets framework - one that will function in the context of a future cap & trade system. An uncertain and overly burdensome offsets regime will not provide timely and cost-effective options for regulated entities to manage their costs and plan the transition to new lower carbon technologies. Government policy should be aimed at developing a broadly-based offsets system that that is easy to work with and efficient to administer.

The Business Council appreciates this opportunity to comment on Canada's proposed Offset System for Greenhouse Gases.

Sincerely,

*Original signed by
Jock Finlayson*

Jock A. Finlayson
Executive Vice President - Policy
/vjc