

BC Forest Industry Working Group on Climate Change

Recommendations to the WCI

on the

“Major Design Options”

January 31, 2008



The BC Forest Industry Working Group on Climate Change

The BC Forest Industry Working Group on Climate Change (the Working Group) is an industry co-operative made up of representatives of British Columbia's pulp and paper mills, sawmills and the province's two major forestry associations.

As a group, we work to present an understanding of the value of our sector. As one of BC's largest industrial employers and single largest consumer of electricity, our sector is the backbone of many communities and contributes extensively to the provincial economy.

We also work to ensure that forest and related provincial policy is created and implemented in a way that fosters growth and increased competitiveness for our sector and for BC as a whole. We are committed to our industry and believe that it will be a significant contributor to the BC economy for years to come.

Our sector has implemented dramatic improvements over the past decade including sustainable forest management practices, energy reduction initiatives and fuel switching projects. The sector has delivered the strongest greenhouse gas record in the province with total current reductions of about 50% compared to 1990 levels; equivalent to the removal of 2.5 million tonnes of carbon. The sector is currently focusing on opportunities to create new biomass products, generate more carbon-neutral biomass based power and provide solutions to BC's pine beetle epidemic.

Members of the Working Group include:

AbitibiBowater

Canfor Corporation

Canfor Pulp Limited Partnership

Catalyst Paper

Cariboo Pulp

Coast Forest Products Association – representing 22 BC forest products companies

Council of Forest Industries – representing 50 BC forest products companies

Domtar Pulp and Paper Products

Howe Sound Pulp and Paper

Mercer International

Neucel Specialty Cellulose

Pope and Talbot

Tembec Enterprises

Tolko Industries

West Fraser

1 Design Elements

Combinations of the feasible design elements are presented as five major design options below. These options indicate how the elements could be combined to create a cap-and-trade program with varying levels of coverage. Option 1, with the narrowest scope, would cover the electric sector, large fossil fuel stationary combustion sources, and large industrial process emissions. Option 3 has a significantly broader scope by also including liquid transportation fuels and fossil fuel stationary combustion in the residential and commercial sectors. Option 5 represents an alternative approach, focusing on the fossil carbon content of all fuels.

Major Scope Options Under Consideration as of December 2007 – For Public Review and Comment

Option 1	Option 2	Option 3	Option 4	Option 5
Electric Sector ¹	Electric Sector ¹	Electric Sector ¹	Electric Sector ¹	
A. Large stationary combustion sources	A. Large stationary combustion sources	A. Large stationary combustion sources	A. Large stationary combustion sources	
		B. Liquid transportation fuels	B. Liquid transportation fuels	
	C. Residential and commercial natural gas combustion	C. Residential and commercial natural gas combustion		
	C1. Residential and commercial stationary combustion of fuel oil and other liquid fuels	C1. Residential and commercial stationary combustion of fuel oil and other liquid fuels		
D. Industrial process and waste management emissions	D. Industrial process and waste management emissions	D. Industrial process and waste management emissions	D. Industrial process and waste management emissions	D. Industrial process and waste management emissions
				F. Fossil carbon content of fuels
1. The electric sector would be covered in a manner defined by the Electric Subcommittee.				

The subcommittee’s preliminary analysis has indicated that several design elements are not likely to be feasible to be included under the cap in a cap-and-trade program in the near term. The factors indicating that these elements are not good candidates for inclusion under the cap-and-trade program are: inability to measure or calculate emissions reliably at the entity level; administrative challenges due to the large number of regulated entities; and significant vulnerability to emissions leakage. These design elements include:

- emission sources at fossil fuel production facilities for which it is difficult to measure or calculate emissions at the entity level;
- passenger cars, light duty trucks and medium duty vehicles regulated at the manufacturer;
- large transportation fleets;
- agriculture emissions and sinks;
- forestry emissions and sinks; and
- high-GWP gases regulated at the point of manufacture.

While the sectors and sources included in these design elements may ultimately not be recommended for inclusion under the cap of a cap-and-trade program, these sectors and sources may be appropriate for inclusion in an offset program, or may be addressed through other policies or measures.

By releasing this preliminary list of major design options, the Scope Subcommittee solicits public comments on these materials. Comments would be particularly appreciated on the following:

- 1. Feasibility: Do you agree with the subcommittee's assessment of the design elements that are feasible for inclusion in a cap-and-trade program? If not, what would you change?*
- 2. Options: Do you agree with the range of options presented by the subcommittee? If not, what options would you add or delete?*
- 3. Thresholds: What thresholds (e.g., tons of emissions per year) are appropriate to use to define the entities with regulatory obligations under each of the design elements?*
- 4. Phasing: Which design elements, if any, should be phased in over time?*

1.1 Working Group recommendation on Feasibility and Options

The Working Group agrees that the sources currently included for consideration in a cap and trade system are feasible in terms of measurement, administration and containment of carbon leakage. The Working Group **supports Option 1 as the best launch point for a WCI Cap and Trade system**. As the system matures with improvements in efficiency and size of offsets markets, the WCI must consider expanding the scope to include more elements.

1.2 Working Group recommendation on Thresholds

The Working Group has been involved in setting threshold size with the Canadian Federal and Albertan Provincial governments. The Working Group believes that appropriate thresholds must be set that capture the majority of emissions and key emitters without unnecessarily forcing immaterial players to participate. The Working Group was involved with government in a relatively simple analysis for the industry that efficiently determined an effective threshold. Currently, the Working Group supports a **threshold of 50,000 tonnes CO₂e per annum**.

Further, the Working Group believes that **entities with emissions below the threshold must be eligible for inclusion in the offsets system**. Many forest products based stationary combustion sources and industrial processes have the potential to further reduce emissions especially with the use of carbon neutral biomass fuels. These operations must be able to harness the market value of their carbon reductions regardless of their emissions relative to the threshold.

1.3 Working Group recommendation on Phasing

The Working Group believes **additional elements should be phased in once the core cap and trade program is fully functional**. Specific decisions on what elements to include should be a reflection of absolute carbon reduction opportunities across all WCI Partners.