

BC Forest Industry Working Group on Climate Change

Recommendations to the WCI

on the

“Options for a GHG Offsets System”

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 Should the WCI allow offsets as a compliance mechanism?

The Working Group **strongly backs the use of carbon offsets** in tandem with the cap and trade system. As the EU has discovered, an offset system is an efficient means of maximizing domestic emissions reductions and providing an incentive for those sectors not covered by carbon regulations to move toward a low-carbon economy. The policy rationale for allowing offsets is to harness market forces to ensure that emission reductions are made where they can be achieved most cost-effectively.

The Working Group believes that a **broad as practical approach** to offset system coverage is most effective. BC and the WCI should aim to include as many non-regulated activities into the offsets system. Numerous forest sector activities are the cornerstone of BC business and should be eligible for inclusion. These activities include forest sinks like afforestation, reforestation, avoided deforestation, as well as the manufacture of wood products.

In particular, the wood products sector represents an important and near term potential contributor to the BC offsets system. Many companies are integrated and operate both pulp and paper and solid wood manufacturing facilities and thus would have the opportunity to participate in an offset system. If these integrated companies could utilize offsets internally, they could achieve their regulatory obligations in the most cost-effective manner

2 Location of Offsets

The WCI is considering the implications of restricting the eligibility of offsets on a geographical basis. Such restrictions could limit some of the disadvantages noted above. At the same time, the WCI recognizes that such restrictions may affect the liquidity of the market and increase compliance costs.

2.1 Should the WCI allow offsets (only)* from projects located within its Partner jurisdictions or should the WCI allow offsets from projects located outside the WCI (either in the rest of North America or internationally)?

The Working Group believes that in the operation of the cap and trade program, eligible **offsets should be limited to only those originating in WCI Partner jurisdictions**. This approach will greatly simplify the administration of the system in its early stages and potentially encourage other North American jurisdictions to bolster the WCI membership. This approach promotes North American harmonization of carbon cap and trade.

3 Quantitative Limits on the Use of Offsets

3.1 Should there be quantitative limits on the use of offsets (perhaps based on their location) to meet compliance obligations?

The Working Group feels strongly that **there should be no quantitative limits on the use of offsets** to meet compliance obligations. The very purpose of offsets is to deliver reductions in the most economic manner. Imposition of limits will negatively impact the cost of carbon compliance.

4 Eligible offset project types within WCI

4.1 Should the WCI decide by August 2008 upon an initial list of approved project types, possibly including approved baseline and monitoring methodologies, prior cap-and-trade design?

If offsets are allowed (see question 1 above), the WCI would likely establish a process and criteria for approving project types and methodologies on an ongoing basis. The question here is whether time is sufficient and benefits are significant enough to warrant establishing an initial set of approved project types (and perhaps including methodologies) prior to the WCI design to be issued in August 2008.

The Working Group believes strongly that the **WCI should provide draft guidelines around approved offsets projects and their methodologies.** This level of detail will provide greater surety to the private sector and help boost the generation of potential offset projects. There are already numerous significant offsets programs in existence in the world today. These could be easily used as templates for the preparation of the WCI offsets program.

4.2 Should the WCI allow offsets from sources capped and regulated by the cap and trade system or from indirect emission reductions in sectors covered by the cap-and-trade system?

Ultimately, the Working Group believes that **regulated entities that out-perform their regulatory obligations should reap the same rewards as entities outside the cap that are participating in an offset program.** Regulated entities should be able to sell allowances just as non-regulated entities can sell verified offsets. Further, regulated entities must have the freedom to participate in offsets programs around facets of their businesses not regulated.

5 Linkage with, and use of allowances from, other emission trading systems

The WCI is initially discussing the question of linkage within the Offset Subcommittee, with the recognition that it raises a number of questions distinct from the offsets-specific issues noted above. Input from multiple subcommittees is anticipated. Potential linkage with other systems will have implications with respect to offsets, both directly (by enabling access to offset commodities within other systems) and indirectly (since allowances may be internally fungible with offsets in other systems).

5.1 Bilateral linkage: Should the WCI link directly with other, rigorous cap-and-trade programs and allow fungibility of allowances among the two (or more) systems?

As in 2.1, the Working Group believes that there should be no linkage with any non-WCI allowances or offsets. This approach will simplify the program and minimize leakage from the system. Any consideration around expanding the system shouldn't be considered in the program's initial years.

5.2 Unilateral linkage: Should the WCI allow the use of allowances from other, similarly rigorous cap-and-trade programs to be used as a compliance mechanism by capped sources in the WCI?

As in 2.1 and 5.1, the Working Group believes only allowances from within the WCI should be used.