

**Voluntary Report** – Voluntary - Public Distribution

**Date:** March 12, 2021

**Report Number:** CA2021-0014

**Report Name:** Canada Proposes Federal Carbon Offset System

**Country:** Canada

**Post:** Ottawa

**Report Category:** National Plan, Policy and Program Announcements, Agriculture in the Economy, Biofuels, Biotechnology and Other New Production Technologies, Climate Change/Global Warming/Food Security, Trade Policy Monitoring

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**Report Highlights:**

On March 5, the federal government issued proposed regulations for a federal carbon offset system as an additional element to their carbon pollution pricing policy. Agriculture-specific protocols, yet to be developed, would allow farmers to convert carbon-sequestration practices into carbon offset credits, which could be sold to industrial greenhouse gas emitters.

The 2018 [Greenhouse Gas Pollution Pricing Act](#) established the federal carbon pollution pricing system, based on two pillars:

- the [federal fuel charge](#) (commonly referred to as the “carbon tax”), and
- the federal [Output-Based Pricing System](#) (OBPS).

Under [OBPS](#), industrial emitters are required to compensate for greenhouse gas (GHG) emissions that exceed their annual emissions limit. Compensation can be provided through an “excess emissions charge payment” to the federal government, or by returning “compliance units” via the federal Credit and Tracking System (CATS) developed as part of OBPS. The compliance units include the following:

- surplus credits (issued directly to those industrial emitters whose GHG emissions were below their allowed annual limit),
- federal offset credits (see below, commonly referred to as “carbon credits”), or
- recognized units (issued under a [recognized provincial offset program](#)).

On March 5, 2021, the federal government [announced](#) draft [regulations](#) to establish the [Federal Greenhouse Gas Offset System](#). These regulations – open for a 60-day public consultation through May 5, 2021 – will enable the development of federal offset protocols allowing participants in a protocol, including farmers, to generate carbon offset credits tradable via CATS to industrial GHG emitters.

Offset protocols establish a consistent and approved approach for quantifying GHG reductions or removal enhancements for a given project type. Additionally, protocols provide requirements for project planning and operating expectations, including monitoring and data management requirements. Environment and Climate Change Canada (ECCC) would base protocol assessments on “international best practices” as well as the [ISO Standard 14080:2018](#) (“Greenhouse Gas management and related activities – Framework and principles for methodologies on climate actions”). To date, only two provinces (Alberta and British Columbia) have [ECCC-recognized programs](#), including the following agriculture protocols: [Quantification protocol for reducing greenhouse gas emissions from fed cattle](#) (Alberta) and [Quantification protocol for selection for low residual feed intake in beef cattle](#) (Alberta). British Columbia has yet to announce protocols under its [GHG emissions offset system](#).

Federal protocols are intended to complement ECCC-recognized provincial protocols. Federal protocols would not apply in a province that already has a provincial protocol covering a specific project activity. However, federal protocols may be adapted from approved provincial protocols to make the protocol available to the rest of Canada. All protocol participation is voluntary, requiring the project implementer to apply for project recognition under the appropriate provincial or federal offset system.

During the first phase of implementation, ECCC will be developing the following federal offset protocols:

- Advanced Refrigeration Systems
- Improved Forest Management
- Landfill Methane Management
- Enhanced Soil Organic Carbon

ECCC will publish the timeline for completion of the above federal protocols “soon.” ECCC will open a 30-day public consultation for each protocol following publication.

ECCC will establish Technical Expert Teams to provide technical advice on federal offset protocol development. To be eligible to generate offset credits, all projects developed under an approved federal carbon offset protocol must achieve, “real, additional, quantified, verified, unique, and permanent GHG reductions or removals.” Environmental projects started before 2017, when the federal government first announced its plan to place a price on carbon pollution, would not qualify for the Federal GHG Offset System. In the agriculture sector, several media articles<sup>1</sup> alerted farmers that established practices, such as zero-till or perennial forage coverage, would not generate carbon offset credits.

Once the four phase one protocols are completed, additional federal offset protocols may be considered for development, such as:

- Aerobic Composting,
- Afforestation/Reforestation,
- Livestock Feed Management, and
- Avoided Conversion of Forests.

Finally, and subject to “the results of further analysis and pilot projects,” additional agriculture-related protocols may be considered for development, such as:

- Avoided Conversion of Grasslands,
- Reduced Nitrogen Oxide Emissions from Agriculture Fertilizer, and
- Livestock Manure Management.

Comments on the proposed [Greenhouse Gas Offset Credit System Regulations](#) *can be* sent to [ec.creditscompensatoires-offsets.ec@canada.ca](mailto:ec.creditscompensatoires-offsets.ec@canada.ca) through May 5, 2021.

**Attachments:**

No Attachments.

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<sup>1</sup> [New carbon market will not credit past farming practices, Liberals unveil carbon offset regulations.](#)