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FAST FACTS

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Cap-and-Trade Will Help Keep Our Forests Green and Growing

The Stern Review on the Economics of Climate Change noted that roughly 25% of the total world's carbon emissions are due to deforestation and that developing initiatives and programs to curb deforestation would be the most cost effective way to reduce greenhouse gases (GHGs) emissions. The Western Climate Initiative (WCI) cap-and-trade system has the potential to be such an initiative.

Launched in 2007, WCI is a collaboration of seven U.S. States and four Canadian provinces, including Manitoba. This cap-and-trade system represents nearly three-quarters of Canada's and one-fifth of the US' economy. Cap-and-trade systems have been widely used in both North America and Europe and are globally recognized as the most effective market-based solution for reducing GHG emissions.

The WCI's mandate is to identify, evaluate, and implement programs to reduce GHGs by 15% below 2005 levels by 2020, with a particular focus on developing a market-based cap-and-trade system.

A cap-and-trade system works by setting a fixed limit on GHG emissions (the cap part) and then distributing the rights to release emissions, called the allowance, up to the regulated cap level. This allowance is then transferable amongst partners involved in the system (the trade part), allowing some participants to emit beyond the capped limit when

they purchase that right from another participant that emits below their limit. A cap-and-trade system works best when the cap limit that is initially set is reduced over time.

The first phase of the WCI cap-and-trade system is to take effect in 2012, and much work still remains to be done if the partners want to meet this target date.

The WCI is looking at allowing partners to create carbon-offset programs to help reduce the compliance costs associated with the cap-and-trade system. The carbon saved through an approved offset project could then be traded or sold to other WCI partners to meet part of their carbon reduction targets. Those trading or selling the carbon offset could derive real economic benefits.

Forest restoration projects that increase carbon sequestration are one of three primary offset areas that the WCI is exploring. Hence, activities such as reforestation/afforestation, or better forest management practices that sequester more carbon than business-as-usual — or afford more forest conservation and protection — could be eligible as an offset project under the WCI cap-and-trade system.

Given the potential economic benefits of any carbon offset projects, the government of Manitoba should be ensuring that any forest projects



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for POLICY ALTERNATIVES
MANITOBA OFFICE

309 - 323 Portage Avenue
Winnipeg, MB R3B 2C1
T 204.927.3200 F 204.927.3201
ccpamb@policyalternatives.ca
www.policyalternatives.ca

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FAST FACTS continued ...

undertaken to increase carbon sequestration are included as an offset mechanism in any cap-and-trade system, whether developed regionally, nationally or internationally.

This is not pie in the sky stuff. As early as 1999 the concept of creating Forest Carbon Reserves (FCRs) was being implemented on the ground in Saskatchewan. In this instance the government created 12 separate FCRs, totalling 206, 000 hectares, as part of its objective to create a network of protected areas. The carbon saved over the life of the agreement was then sold internally at market value to SaskPower to help reduce its carbon footprint. A portion of the money, \$6 million, realized through this agreement went to Saskatchewan Environment for silviculture, implementation and to monitor the agreement.

Some argue that forest-offset mechanisms can be risky for purchasers because forests are susceptible to natural disturbance, most notably forest fires, introducing an element of uncertainty to size of the carbon offset. This problem can be resolved with careful planning. The Saskatchewan offset project placed a time limit of 50 years on the FCRs, reduced the actual amount of carbon sequestered to accommodate forecasted carbon loss due to natural disturbance, and implemented a rigorous monitoring program.

Think about the real social, environmental and economic benefits that would be derived when and if the government of Manitoba starts to work with the Forest Industry, Manitoba Hydro, the Manitoba Woodlot Association, Manitoba Forestry Association, and with First Nations communities. All will benefit from programs that increase carbon sequestration through better forest management and conservation practices. Such practices would have a greater chance of succeeding if the parties involved knew there were real economic benefits to selling the carbon-sequestering offset savings onto the market created by the WCI cap-and-trade system.

To determine the potential economic value of a possible forest carbon-offset project for Manitoba, one only need look at the recent report released by the International Institute for Sustainable Development (IISD). The IISD assessed the value of the ecosystem services provided by the proposed World Heritage Site on the Eastside of Lake Winnipeg. The report concludes that the area has a total forest-carbon sequestration value of \$12 to \$21 million per year, more than enough needed to finance a World Heritage Site.

Starting this year WCI will begin the process of developing a set of standards and protocols for projects that can be included as a carbon offset in the cap-and-trade system. In short, the government of Manitoba should now be in the process of mapping out a coherent set of carbon offset programs with various key stakeholders and First Nations who would benefit by such programs.

Manitoba can boast of its internationally recognized leadership role in combating and mitigating climate change. But it must not underestimate the human and financial capital needed to ramp up capacity within and outside of government to insure effective implementation of the WCI cap-and-trade system. Let's all hope that it is up to the task.

Don Sullivan is Director of the Boreal Forest Network.



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