

## **Protecting Ontario’s Forest Sector & Strengthening Northern Communities through Sustainable Forest Management and Carbon Finance**

The International Emissions Trading Association (“IETA”), a non-profit association representing 150+ businesses worldwide, extends its appreciation to Ontario’s leadership in working to develop an effective compliance offsets system. This policy measure is a critical design feature under Ontario’s cap-and-trade program. IETA members represent a broad cross section of entities with compliance obligations under the program and businesses that offer clean investment and services across the province’s carbon market. We remain committed to making Ontario’s nascent market work to achieve our common climate goal while stimulating the greatest socio-economic value retained in the province.

While we applaud the policy direction and efforts to date on Ontario’s broader cap-and-trade framework, we are concerned about how the adaptation of offset protocols is proceeding. In particular, our community is concerned about the ability of these efforts to preserve the potential of forest carbon sequestration and the significant co-benefits that are at risk of not materializing unless the government changes course. To be clear, **forest carbon not only represents the single greatest greenhouse gas (“GHG”) reduction opportunity for Ontario**, but these projects also have immeasurable co-benefit opportunities, including across Northern Communities.

### **THE RISK OF LOW SUPPLY**

Modeling undertaken for the Office of the Auditor General of Ontario indicates that an estimated \$466 million of capital outflows are likely to occur in Ontario’s first cap-and-trade compliance period, as regulated entities import allowances to cover the compliance gap.<sup>1</sup>

The Government itself has recognized that **creating a healthy offsets market in Ontario is “critical to maintaining the integrity of the system”<sup>2</sup>** by achieving low-cost GHG mitigation that helps contain the costs of cap-and-trade without resulting in capital outflows. The ability to fulfill this critical role will not only depend on the timeliness of the overall offset protocol adaptation, but also on the existence of a workable forest carbon protocol that unlocks this significant potential. In the Western Climate Initiative (“WCI”) system, 66%<sup>3</sup> of issued offsets were generated using the Compliance Offset Protocol for U.S. Forest Projects, a major source of cost containment in their system.

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<sup>1</sup> *Environmental Commissioner of Ontario. 2016 Annual Report of the Office of the Auditor General of Ontario. Ch. 3. Pg. 149.*

<sup>2</sup> *Compliance Offset Credits Regulatory Proposal. December 2016. Pg. 4.*

<sup>3</sup> *Calculated on the basis of verified and credited emissions reductions published by the California Air Resources Board: <https://www.arb.ca.gov/cc/capandtrade/offsets/offsets.htm>*

## THE FOREST CARBON OPPORTUNITY

Ontario likely has greater reliance on forest carbon to deliver domestic low-cost mitigation within the cap-and-trade system than partner jurisdictions. More importantly, it represents a significant opportunity to generate jobs, economic output and other co-benefits for First Nations, rural and Northern Communities who engage in sustainable forest management. A recent study by the Massachusetts Political Economy and Research Institute estimated that 39 jobs are created for every \$1 million invested in sustainable forest management, more than any other sector.<sup>4</sup> Thus, if 66% of the total offset demand of 42 million tCO<sub>2</sub>e in the first compliance period of the Ontario system were to be satisfied by forest carbon, **this would represent a \$420 million opportunity to leverage job growth and economic output across these communities.**

Despite the above facts and Ontario forest carbon promise, this critical element of the cap-and-trade program is not being adequately prioritized within the province's current offset protocol adaptation process. We therefore urge the Ontario Government to put **renewed focus and priority on developing a compliance forest carbon protocol based on the model and underpinning principles of the existing California protocol.**

## THE MAIN RISKS & CONCERNS

1. We are aware that the protocol adaptation process has stalled and awaits the outcome of discussions with the Quebec Government. We also understand that Quebec is proposing an alternative approach (referred to as "tonne-year") to crediting GHG reductions from forest carbon projects. This approach has yet to be published and has virtually no track record of success in incentivizing forest carbon projects. What little is known about the "tonne-year" approach suggests that it would fail to provide such an incentive. It is imperative that Ontario **avoids the application of the "tonne-year" alternative and instead adopts a protocol based on the approach used in California's protocol** but adapted to Ontario's forest management practices and forest dynamic.
2. Delays in developing the offsets regulations and adapted protocols create serious concern that Ontario offsets will not be available in material quantities to help reduce program costs during the first compliance period. Many Ontario private forested land owners are anxiously awaiting the compliance forest carbon protocol to make commitments to GHG mitigation and satisfy cap-and-trade market demand. **Delays and uncertainties about the treatment of forest carbon within compliance protocols are resulting in doubts about the legitimacy of the cap-and-trade market in Ontario.**
3. We understand that the forestry protocol adaptation process is addressing activities on both private and Crown lands. The former is a more straight-forward consideration with a well-proven model (i.e., California Forest Protocol). The latter is a much more complicated consideration that is linked to the

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<sup>4</sup> Garret-Peltier, Heidi. Pollin, Robert. 2009. *How Infrastructure Investments Support the U.S. Economy: Employment, Productivity and Growth*, Political Economy and Research Institute.

broader Forest Carbon Policy. **While we welcome the consideration of how offsets can incentivize greater GHG mitigation on Crown forests, we are concerned that this process unnecessarily holds-up opportunities on private lands.**

4. Ontario’s Ministry of the Environment and Climate Change (“MOECC”) is developing a voluntary offset procurement program in parallel to the compliance offset protocol adaptation process. The Government’s intention to offset its carbon footprint and lead by example is commendable. However, these voluntary program activities cannot be at the expense of maximizing low-cost mitigation opportunities for the compliance cap-and-trade market. It would otherwise lead to greater capital outflows to purchase out-of-province units from California and Quebec. We are **concerned that the voluntary procurement scheme may contribute to the lack of prioritization of compliance protocol development.** A preliminary indication from MOECC on the Government’s voluntary offset demand suggests it will represent a small fraction of potential supply from forest carbon projects on private land alone and will not be sufficient to drive strong economic support to the forestry, Northern and First Nations communities.

#### **IETA RECOMMENDATIONS FOR ONTARIO**

1. We recommend that **Ontario prioritize the adaptation of protocols** for the cap-and-trade market, both in terms of expediting the process and focusing on which project activities will deliver the greatest potential for low-cost GHG mitigation/sequestration alongside co-benefits.
2. We urge **Ontario to proceed on an expedited basis with the adaptation of the California Compliance Offset Protocol for U.S. Forest Projects**, using the same approach to GHG quantification as California, but adapting it to Ontario forest management practices and forest dynamic.
3. We recommend that Ontario’s **forestry protocol be adapted and approved for use on private lands**, then modified at a later stage when the policy decisions for Crown lands provide the needed clarity.

IETA members are genuinely interested in supporting the government across all aspects of its cap-and-trade program and unlocking the potential for its compliance offsets market to reduce GHG emissions at least-cost by investing in Ontario. We want to see Ontario’s Climate Change Plan and carbon market succeed and be replicated across Canada and globally. We expect this focused time and investment, particularly in relation to forest carbon offsets, to yield significant environmental and socio-economic benefits to the communities that support the province’s sustainable forest management, namely First Nations, rural and Northern Communities.

*To learn more or engage with our business community, contact **Katie Sullivan, IETA Managing Director**, at [sullivan@ieta.org](mailto:sullivan@ieta.org) or **Jamie MacKinnon, Bluesource Canada and Chair of IETA’s Ontario Task Force**, at [jamiem@bluesourcecan.com](mailto:jamiem@bluesourcecan.com).*