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## **IETA COMMENTS ON PROPOSED FEDERAL GREENHOUSE GAS OFFSET CREDIT SYSTEM REGULATIONS (CANADA)**

The [International Emissions Trading Association \(IETA\)](#) appreciates this opportunity to share input on the Government of Canada's "*Proposed Greenhouse Gas (GHG) Offset Credit System Regulations*" (**Proposed Regulations**), published in Canada Gazette, Part 1, Volume 155, Number 10 on 6 March 2021. Our community is pleased to see Environment and Climate Change Canada (ECCC) build on the federal Output-Based Pricing System (OBPS) and 2019-2020 Consultation Discussion Papers, which featured initial thinking and design directions related to federal offset system and protocol development.

**IETA is the leading international business voice on climate markets and finance.** Our non-profit organization represents over 150 companies, including many facing climate risks and opportunities across Canada. IETA's market expertise is regularly called-upon to inform market-based policies that deliver measurable GHG reductions and removals, address economic competitiveness concerns, and balance economic efficiencies with social equity and co-benefits.

Achieving Canada's updated 2030 Nationally Determined Contribution (NDC)<sup>1</sup> of an absolute GHG reduction of 40-45% below 2005 levels by 2030 will take heroic effort and massive sums of finance and investments across all sectors of the economy. Canada should use carbon markets to not only enable and accelerate this journey toward decarbonization and net zero, but also meet this climate ambition in a just and equitable manner while remaining prosperous and competitive. **A federal Canadian offset system, underpinned by environmental integrity and harmonized across provincial systems, must form a backbone policy tool of Canadian climate action through 2030 and beyond.** While existing Canadian provincial and voluntary carbon markets have already driven low-carbon technology, jobs and investments, the new federal offsets program – built on a healthy portfolio of replicable, deployable, scalable and economically-viable compliance protocols – holds enormous potential to further accelerate climate action, investment and co-benefits both across and beyond Canadian borders.

**IETA's comments on the Proposed Regulations are structured around three main sections:**

- **Section 1: Priority High-Level Input** relevant to all aspects of the Proposed Regulations, with a view to supporting the sound design and implementation of a robust and dynamic federal offsets system;
- **Section 2: Detailed Comments on Proposed Regulations** specific to Proposed Regulatory Text; and
- **Section 3: Other Considerations for ECCC** while finalizing the Proposed Regulations alongside launch of protocol development and other key stakeholder engagement activities.

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<sup>1</sup> Canada's initial NDC, submitted to UNFCCC in 2015, was an absolute target of 30% reduction of GHGs below 2005 levels by 2030. The updated 2030 NDC, [previously expected](#) to be in the range of 32-40% below 2005 levels, was announced as **40-45% below 2005 levels by 2030** on 22 April 2022 ([Link](#) to ECCC Backgrounder, 23 April 2021)

## SECTION 1: PRIORITY HIGH-LEVEL INPUT

The following summarizes high-level priority input, relevant to all aspects of the Proposed Regulations, with a view to the sound design and implementation of an effective Canadian federal offsets system.

### Bio-Sequestration Project, Registration and Protocol Timetables

IETA is encouraged by the early-2021 publication of four priority project types for protocol development, including two types related to natural climate solutions (i.e., Enhanced Soil Organic Carbon and Improved Forest Management). However, based on the proposed regulations and this simultaneous protocol development effort, **IETA has serious concerns that certain proposed design elements and timelines for protocol development could significantly hamper bio-sequestration project and investment opportunities.** Without urgent course correction to the proposed project registration and protocol availability timeline, **we are likely facing 3-4 more years before bio-sequestration project activity and credit generation is possible.** This scenario would clearly delay associated financial and compliance value along with the significant co-benefits to communities and ecosystems. In the meantime, there is the risk that capital will be deployed to bio-sequestration projects in other jurisdictions.

ECCC has proposed to allow projects registered in an alternative offset program to have their original crediting periods respected when transitioning to the federal offset system. **There are only a handful of forest carbon and enhanced soil carbon projects with start dates after 2017 for which this might be relevant; for all others, it offers no solution.** We therefore wish to propose the following potential solutions that can help, individually and collectively, to unlock near-term and significant opportunities for nature-based projects while mobilizing and scaling capital waiting on the investment side-lines.

1. **Allow for crediting periods to start 1 January 2021 for projects registered after that date when the relevant federal compliance protocol is approved.** The first reporting period would need to allow for crediting of more than 12 months to reflect all sequestration up to the point of verification, which will reduce the time to generate revenues by as much as 12 months. This proposed approach is also consistent with ensuring that all sequestration contributes to meeting Canada's 2030 NDC. Doing so will have no impact on the integrity of the offsets and the ability to meet the federal offset criteria.
2. **Allow projects to register and start the crediting period with a simplified process that registers the intent.** This would allow the 6 to 9 months of carbon inventory and documentation development to be done simultaneously with the accrual of sequestration in the first 12-month reporting period.
3. **Commit to an expedited 12-month process for the approval of the Improved Forest Management (IFM) protocol.** IFM protocols approved by regulators in California and other voluntary protocols used in hundreds of projects have demonstrated that existing protocols can meet federal offset criteria. For instance, the American Carbon Registry (ACR) has adapted the most widely used protocol in the US for Canada and expects to approve a final version this spring. We urge ECCC to prioritize validating use of Canadian adapted IFM protocols for applicability to non-Crown managed forest.

## Protocol Development – Voluntary Submittals and Fast-Track Collaborative Mechanism

**IETA welcomes the recent creation of protocol Technical Expert Teams (TETs) by ECCC**, as well as listing priority project types for protocol development activities. We understand that due to time and resource constraints that TETs will only work on one (1) protocol per priority project type and therefore “team”, but that if other protocols are identified for potential development/adaptation that work may expand.

We take this opportunity to again **encourage ECCC to consider further streamlining the federal protocol development process by allowing for a complementary, collaborative fast-track approach, focused on adapting available protocols that already exist**, while broadening opportunities to allow for enhanced industry and market expert participation. ECCC should consider a controlled collaborative fast-track approach to protocol development that would swiftly capitalize on existing industry knowledge, expedite the adaptation/development process, and not require additional government personnel or resource spending to execute. This fast-track approach, among other proposals to enhance and streamline federal protocol development, are featured in the IETA’s comprehensive response to ECCC’s 2020 *“Discussion Paper on Considerations for Protocol Development”*<sup>2</sup>.

Moving forward, **we also encourage ECCC to employ a “time box approach”** to protocol development, where ECCC defines a limited period of time allowed for completion of a protocol. The time box, as used in Alberta, forces stakeholders to focus on the most important issues throughout the development process while also providing clarity about when a protocol may be available for project developers, thus allowing parties to accelerate project development efforts. We believe this tactic is especially important at the front-end of a protocol development process, in order to ensure that there will be protocols available within a reasonable amount of time. On a similar note, we recommend that ECCC employ **carefully designed, simple-to-use templates** for federal protocol development, and recommend that these templates are consistently used as the program expands and evolves (unlike Alberta program where template updates occur every 1-2 years, adding unnecessary expense and uncertainty).

## Direct Financial Incentives and Ownership Considerations

**IETA strongly supports the proposed approach to Direct Financial Incentives (DFIs) and project or project proponent eligibility.** We recognize that ECCC carefully listened to stakeholders about this issue, and how we see numerous examples of Canadian projects that may require additional financial incentives beyond carbon offsets revenue to become economically viable. The ability to be eligible for offset credit generation while receiving project funding and incentives is a strong and defensible proposal.

**We are concerned about the proposed stipulation for a proponent to have exclusive entitlement to GHG reductions or removals**, which could severely limit eligibility of projects that have received government funding. IETA recommends that ownership of credits from projects that have received funding should be

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<sup>2</sup> “Discussion Paper: Carbon Pollution Pricing: Considerations for Protocol Development in the Federal Greenhouse Gas Offset System”. ECCC. July 2020. ([Link](#)) IETA Comments on Discussion Paper and Annex. September 2020. ([Link](#) and [Link](#))

assigned ownership on a pro rata basis (e.g., 50% cost share means a pro rata adjustment to the number of offsets). Alternatively, a government could make a policy decision to waive the ownership in the program and allow 100% of any offset generated to be accrued to the investor or project developer. This type of waiver approach currently occurs in Alberta under the Emissions Reduction Alberta (ERA) program, where ERA recipients of funding are not subject to a clawback or surplus conditions on funding received.

## Voluntary Carbon Market Considerations and Interactions

**Maximizing Use of Federal Offsets for Voluntary Global Markets and Corporate Commitments:** Can ECCC confirm that eligible offset projects registered in the OBPS are not limited in terms of using or transacting the credits issued into global markets, including for voluntary purchases/use toward meeting corporate climate and net zero commitments?

**Moving Projects from Voluntary Registries to OBPS Registry:** We understand that ECCC intends to allow moving eligible projects from voluntary registries to the Canadian OBPS registry, where projects must first be cancelled in voluntary registries. Sequencing is critical such that ECCC should provide future assurances and certainty to project developers about which projects qualify to be transferred to the OBPS prior to applicants requesting that their project be cancelled and removed from voluntary registries. A viable solution for consideration by ECCC is the establishment of a “pre-approval process” for voluntary projects transferring into the Federal system.

## Regulatory Cooperation and Alignment Considerations

**OBPS Review and Post-2022:** The federal OBPS Review and ongoing consultations to inform Canada’s post-2022 carbon pricing landscape represent the most material reforms to the system since its 2019 launch. IETA firmly believes that decisive steps are required to align the federal compliance emissions trading system with the country’s ambitious 2030 GHG reduction target and longer-term 2050 net zero goal. As observed in IETA’s comments on the “*Proposed Scope of the OBPS Review*”, submitted to ECCC on 29 March 2021<sup>3</sup>, any post-2022 OBPS annual OBS tightening rates will have to be considered in line with the original spirit and intent of the OBPS itself which was to preserve and protect the competitiveness of Canada’s regulated industries. A key to competitiveness protection is the availability of lower-cost compliance units, **including federal compliance offsets, Recognized Units from provincial systems and generation/availability of surplus credits** (especially when surplus credit volumes shrink with Ontario’s official OBPS departure now announced for 1 January 2022 and uncertainties post-2022)<sup>4</sup>.

**Future OBPS Offset Usage Limits:** To date, we have seen numerous delays and zero opportunities for OBPS covered entities to use any federal offsets against their OBPS compliance obligations (despite having unlimited 100% usage limits in compliance years 1-2 of the program). Once proposed regulations are final

<sup>3</sup> IETA Comments to ECCC on “Proposed Scope of Output Based Pricing System Review”. 29 March 2021. ([Link](#))

<sup>4</sup> According to 29 March 2021 announcement by ECCC, Ontario EPS official launch is on 1 January 2022. As a result, Ontario OBPS covered entities will remain in the federal program – and will have to meet their compliance obligations – for 2019, 2020 and 2021 compliance periods. Future post-2022 equivalency of Ontario’s EPS program with the federal backstop is uncertain. ([Link](#))

in fall 2021, IETA hopes to see swift program launch and the release of compliance offset protocols with credit issuances and long-awaited supply becoming available to the market. In the context of the OBPS review and system revisions post-2022, **we have consistently urged ECCC to revisit current (75%) offset usage limits and return to unlimited (100%) offsets use in future OBPS compliance periods.**

**CFR LCA Model:** We encourage ECCC to review IETA’s final comments on the draft Clean Fuel Regulations (CFR), submitted to ECCC on 4 March 2021<sup>5</sup>. Among several observations related to CFR-OBPS interactions, it will be important for ECCC to consider the CFR life-cycle analysis (LCA) model baseline of 2016 and its interactions with the proposed 2017 offsets baseline. An additional consideration in ensuring that baselines for sequestration offsets are fixed at 2017 in the Fuel LCA model that will be used to underpin the carbon intensity values for various feedstock pathways in the government’s proposed CFR. Given the body of information available on carbon intensity studies for various feedstock pathways from Canadian sources, it is likely that at least one pathway would reference soil organic carbon values from 2016. In order to ensure the integrity of the Fuel LCA model underpinning the CFR, and to avoid unnecessary complications when determining feedstock baselines compared to offset project baselines, we recommend fixing these two baseline years at 2016 and 2017, respectively.

## SECTION 2: DETAILED COMMENTS ON PROPOSED REGULATIONS

This section contains more detailed IETA input and recommendations related to specific sections and proposed elements in the Proposed Regulations. **Reference to the associated section(s) of the proposed Regulatory Text are featured in sub-title brackets.**

### Material Discrepancy (1)

We understand that ECCC is seeking thoughts and direction on the proposed 5.0% materiality threshold, and whether it is sufficient or other fixed amounts in addition to this percentage should be explored. After canvassing IETA members who include many world-leading assurance providers, **we believe that the proposed materiality threshold of 5.0% is both reasonable and defensible.**

Two further observations related to materiality and approaches to discrepancies are important to highlight. First, in terms of “**calculation of discrepancies**”, we believe that understatements resulting from the application of conservative approaches (e.g., methodologies, factors, assumptions) should neither be treated as discrepancies nor considered within the materiality threshold. Second, with respect to “**qualitative discrepancies**”, we recommend the regulations explicitly include consideration of qualitative discrepancies, in order to provide verifiers with a mechanism to apply professional judgement in relation to the materiality of these types of discrepancies.

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<sup>5</sup> IETA Comments to ECCC on “Proposed Clean Fuel Regulations”. 4 March 2021. ([Link](#))

## Eligibility Criteria (4)

**Concerns with Rolling Start Date:** IETA has concerns about the proposed approach to eligible start dates in the Proposed Regulations. The “rolling start” dates, mentioned below, is news to most, if not all, market participants and key stakeholders. We ask ECCC to provide clear rationale for why the opening start date of 1 January 2017 essentially expires, and moves to “no more than 5 years before the day on which the application is made”, if applications are made after 31 December 2023. Many OBPS participants and project proponents are **reticent to support this “rolling start” date entering final regulation, especially without concrete evidence and first steps toward ECCC delivering a robust catalogue of approved federal protocols** and project registrations/issuances.

- According to section 4(1)(a): “for projects that have a start date that is before the applicable federal offset protocol is published, the application to register (must) be made within 18 months of the protocol publication date and (i) if the application is made on or **before** December 31, 2023, its start date is no earlier than January 1, 2017, or (ii) if the application is made **after** December 31, 2023, its start date is no more than 5 years before the day on which the application is made”. The proposal goes on to require that for projects with a start date that is **after the applicable protocol is published**, the application to register the project must be made within 18 months of the project start date.<sup>6</sup>

**Core Additionality Criteria:** Across both domestic Canadian carbon market and crediting programs and international programs, IETA believes that anything beyond environmental and legal/regulatory (including carbon pricing coverage) additionality criteria should be avoided or minimized. In recent years, we have strongly discouraged ECCC from using or requiring other types of additionality requirements or criteria, including demonstration of financial additionality and use of supplemental barrier tests<sup>7</sup>. **We are therefore pleased to see that only environmental and legal/regulatory core eligibility criterion are embedded in regulations**, while recognizing that more challenging additionality criteria or barrier tests will likely be required/addressed on a future protocol-by-protocol basis.

**Consider Merits of “Proportional Additionality”:** While moving forward with additionality considerations on a protocol-by-protocol basis, we encourage ECCC to consider the merits of the “proportional additionality” approach. In particular, this could open significant opportunities and flexibilities to apply “proportional additionality” for bio-sequestration projects across Canada. This is **considered an equitable approach that encourages new adoption and rewards early adopters while maintaining integrity in the system and carbon stored to date**. Good and clear guidance and rationale for the use of “proportional

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<sup>6</sup> Note: “application to register the project...within 18 months of the project start date” should be reasonable for most projects, however certain project types (e.g., avoided conversion of grasslands) may take several years to set-up. Under these unique project type circumstances, a “registration of intent” could be a more suitable solution.

<sup>7</sup> As experienced under the UN CDM, our community has seen numerous challenges with **financial additionality**, which have harmed: market and broader climate policy objectives; the freedom from bias of decision-makers; and the perception of fairness and impartiality. The **inclusion of supplemental barriers**, including use or evaluation of technological, social and/or cultural barriers, is also highly problematic and should be entirely omitted from additionality or barrier tests under the future program.



additionality” can be found in numerous existing guidance and best practice design documents, including the Western Climate Initiative (WCI) *“Offset System Essential Design Elements Final Recommendations”*<sup>8</sup>.

**Publication of Provincial Protocols:** IETA supports the proposed requirement that if a project type is one for which a provincial government has published a protocol for use under its provincially-administered offset system, the **application must be made no more than 6 months after the day** on which the provincial protocol is published. To avoid potential issues for aggregated projects, if a provincial protocol must be used ahead of a federal protocol, the federal system should enable aggregated projects to be developed across provincial borders (*see more on this topic in the “Aggregation” section, below*).

**Deactivation of Protocol:** IETA supports the right of the Minister to deactivate a federal offset protocol for reasons listed in section 4(3). However, we suggest that if offset eligible activities become subject to future carbon price coverage, **project proponents should be given notice at least one (1) year in advance** of any proposed rulemaking or protocol deactivation. This is necessary to ensure that applicants can appropriately plan for any changes and avoid sudden shocks to investors or the market.

### GHG Offset Account (6)

IETA supports the requirement for proponents to open GHG offset system accounts in the tracking system, but are concerned about proposed account requirements for biological sequestration projects. First, we are **not clear what purpose it would serve for a biological sequestration project, which has extended its crediting period to 100 years, to maintain an account for 100 years following the end of the crediting period**. The requirement for biological sequestration projects to maintain an account 100 years after the final crediting period is unrealistic, while also potentially representing a complex obligation in perpetuity for many companies and lenders requiring Board-level approvals. IETA recommends the account requirement for biological sequestration projects be modified to be more practical and realistic.

### Crediting Periods (7)

IETA tentatively supports the permanence approach outlined in the Proposed Regulations, **but must stress the importance of differentiating between sequestration projects** involving long-lived assets and cycles (forestry) versus short-term assets and cycles (agriculture).

**We support the proposal to allow up to 100-year crediting period for bio-sequestration projects**, which can go a long way toward alleviating difficulties of a 100-year permanence requirement. The ability to extend a crediting period to 100 years is especially welcome, if tonne-year and hybrid tonne-year/tonne-tonne accounting approaches are considered for sequestration projects with permanence periods less than 100 years. Note that where 100-year permanence can work for many forest carbon projects (albeit with significantly limited potential for mitigation), this approach will likely be untenable for more challenging land-use and regenerative agriculture projects.

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<sup>8</sup> “WCI Offset System Essential Design Elements Final Recommendations Paper”. July 2010. ([Link](#)). Also see “Additionality Discussion Paper”. Climate Smart Group. March 2017. ([Link](#))

## Issuance of Credits (8-10)

According to the proposed regulations, project proponents must submit an initial project no more than 6 months after the first crediting period, but then: at least once every 6 years for biological sequestration projects; and at least once every 3 years for all other project types. **Are project proponents then allowed to submit project reports at any frequency of their choosing (e.g., quarterly, annually, bi-annually)?** The proposed regulation states that offset credits will be issued to a proponent for the reporting period in the report, but will credits be issued at the same frequency of the reporting? We ask that ECCC provide clarity on these questions to ensure that all market participants, including OBPS compliance entities, have a clear understanding of the requirements and processes related to credit issuance.

Beyond the qualitative list of factors that will be “taken into consideration by the Minister”, we request the **explicit identification of values (or value ranges) associated with “risk factors”** used to determine percentage of credits for biological sequestration projects (beyond 3%) for deposit into the Environmental Integrity Account (EIA). IETA also recommends that **ECCC clearly define a cap or maximum percentage potential (which does not exceed 10%) of credits from biological credits** for deposit into the EIA.

## Environmental Integrity Account (12)

Over the last three years of consultations with ECCC on federal offset system design and governance, **IETA has consistently supported the establishment of an EIA**. The use of buffer accounts or reserve mechanisms, where a small percentage of project issuances are deposited and used to address reversals while maintaining environmental/market integrity, is considered best practice across existing voluntary and compliance offset programs. We applaud ECCC for listening to IETA and other stakeholders, but see several gaps and areas of improvement on EIA design and approaches to reversals.

**EIA Should Cover Both Voluntary and Involuntary Reversals:** IETA urges ECCC to cover both voluntary and involuntary reversals in the EIA. We are concerned that failing to cover voluntary reversals could potentially lead to significant market integrity or participation impacts. Further, only covering involuntary but not voluntary reversals runs counter to how most programs apply buffer reserve mechanisms. Should the EIA only cover involuntary reversals, we recommend that permanence management be applied at the project level and follow a similar approach to California.

**Explicit EIA Design Language to Avoid “Buyer Liability” and Preserve Market Confidence and Integrity:** Based on our decades of experience across environmental market programs, we believe it is absolutely critical that the EIA be designed and operate in a way that avoids “buyer liability” while preserving market stability and confidence<sup>9</sup>. As such, we recommend the final regulations include more explicit design language in two (2) areas, as to avoid any future risks, confusion, or misinterpretation by regulators or

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<sup>9</sup> We recognize the EIA covers voluntary reversals when the project developer does not supply the replacement offsets: “(ii) where the proponent does not remit credits in accordance with subparagraph (i) or make a payment in lieu thereof under subsection 181(3) of the Act, cancel offset credits in the (EIA) to make up the difference”



market participants including compliance entities<sup>10</sup>. First, in cases where covered entities may be holding credits that have become revoked or invalidated, IETA recommends that EIA units be used to replace these credits where the project proponent has failed to do so. Second, we recommend the final regulations make clear that EIA units can be used to replace credits that have become revoked or invalidated post-submittal to the Minister for OBPS compliance purposes, and where these credits have gone unreplaced by the project proponent.

## Reversals (14-16)

**Extend Obligation to Provide Notice:** The Section 14(4) proposal that a proponent will only be given 30 days to provide notice to the Minister that a reversal has occurred is unrealistic. **IETA recommends that the proposed 30 days be extended to 60 days, if not longer for certain project types.** This would allow for sufficient time for the affected proponent to gather necessary information, data and context including describing the “circumstances and causes of the reversal” and “steps the proponent is taking to prevent any future reversal from occurring”.

**Obligation Considerations for Aggregated Land-Use Projects:** A 30-day (or even 60-day) time requirement to provide notice to the Minister would be especially challenging for land-use projects covering hundreds, if not thousands, of different properties and project proponents (in the case of these aggregated projects, it can take many months to acquire data from project proponents). As credits are generated from *annual* agricultural activities, we ask ECCC to consider allowing reversals in agricultural systems to be *reported post-harvest and prior to the next seeding event*. This workable timeline and requirement will go a long way to capture more fully any reversal events (both voluntary and involuntary). A clear formula must be provided in the associated protocol to quantify the removal that must be reported.

**Risk Pooling and Aggregation Approaches:** We understand that ECCC is seeking thoughts on workable models related to aggregation approaches, and their suitability for addressing reversals and reversal risk. In general, IETA supports the use of risk pooling for systemic or uncontrollable reversals (forest fire, insect infestation/disease). **Based on experience, risks for aggregated projects *may* be best born by the aggregators themselves:** the aggregator can manage risk through their contractual agreements with individual participants in the aggregated project. Individual projects within an aggregated project do not have their own accounts, so managing reversals with individual projects would be extremely challenging administratively. That said, **it is important to be mindful of the reality that aggregators do not have control over the actions of project proponents**, so it may not only be challenging and unfair but also drive higher costs to require aggregators to take on this responsibility or liability. In the context of aggregating hundreds/thousands of agriculture properties and proponents, making aggregators liable for reversals conducted by farmers managing land will likely result in aggregators creating their own buffer pools and/or charging significantly more for their services to compensate future financial liability of reversals.

## Verifications (17-22)

In the proposed regulations, **ECCC suggests that verification bodies will be allowed to verify a project for up to 15 consecutive years, which appears out of sync with other offset programs and best practice to ensure impartiality is maintained.** IETA is unaware of any other offset program (compliance or voluntary) that would only allow one Verification Body to verify a project for up to 15 consecutive years<sup>11</sup> or would allow one Verification Body to verify an entire crediting period for a project<sup>12</sup>. Rather, most existing best practice offset programs use 5 or 6 consecutive years.

Maintaining impartiality is an important component of any Conflict of Interest (COI) Framework and we believe it would be extremely difficult to remain impartial over the course of a 15-year relationship. For reference, *most offset programs have not even existed for more than 15 years.* As such, this amount of time appears to be too much of an extension as compared to other existing programs. The other consideration for a COI Framework is the value in having “two sets of eyes” review one project. This simply would not be possible if the entire crediting period (8 years) of a project could only be verified by one Verification Body. **IETA therefore believes the best practice of maximum of 6 consecutive years by one Verification Body should be used.**

In addition, we **recommend that enhanced flexibility be given to the proposed requirement for a site visit** by the verifier, particularly for project types covering large land bases such as biological sequestration, forestry and aggregated projects. We also **urge ECCC to consider allowing for maximum use of remote sensing tools** to verify forestry and biological sequestration projects where possible, in order to reduce project costs and potentially improve verification quality.

## Aggregated Projects (23)

IETA has been a stalwart supporter of allowing for aggregation in both compliance and voluntary offset programs. **We applaud ECCC for listening to stakeholder feedback and allowing aggregated project development under the federal offset system.** Aggregation is an effective way to bring value to smaller project proponents (e.g., single farms) for voluntarily taking climate action and being compensated for their efforts. Many successful project types, especially in forestry and agriculture, are not viable without aggregation. While moving forward with both finalizing regulations and protocol development, **IETA has several questions and recommendations for ECCC related to aggregated projects:**

- **Allow Aggregation for any Common Project Type:** It will be important to allow for any project type to be aggregated. If this is clearly-defined and allowed, projects with common operators could be aggregated (provided the owners of individual projects consent to aggregation). ECCC may also consider expanding criteria to include sites that are discrete and separately owned but managed by a common operator with the same practices, processes and procedures.

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<sup>11</sup> 20(1)(a)(ii)

<sup>12</sup> 20(1)(b)

- **Enable Aggregation Pathways:** IETA not only supports allowing aggregation for the same project type, but also allowing broader pathways to aggregation as a way to further reduce administrative burdens and barriers that might prevent smaller scale projects from being developed.
- **Project Site Considerations:** It is important to not limit or constrain aggregation of agricultural projects which may not be contiguous sites nor owned by the same entity.
- **Enable Aggregation of Projects Across Multiple Provinces/Territories:** Requiring the location of aggregated projects to be within a single Province/Territory could significantly hamper project development and program/cost efficiencies. IETA believes that the federal system has an opportunity to enable cross-border project development and market cohesion and alignment. We understand that proposing to restrict aggregated projects to a single province may appear easier from the regulators' perspective (including in terms of assessing additionality, leakage, baselines etc.), however we strongly believe that these issues are better tackled at the protocol-level so as not to limit aggregated projects where cross-border differences are neither a concern nor applicable.

## Protocols (24-25)

**Additionality:** Once again, we believe that anything beyond environmental and legal/regulatory (including carbon pricing coverage) additionality criteria should be avoided or minimized. **IETA is therefore pleased to see that only environmental and legal/regulatory core eligibility criterion are embedded in regulations**, while recognizing that more challenging additionality criteria or barrier tests will likely be required/addressed on a future protocol-by-protocol basis. In September 2020, IETA submitted detailed comments to ECCC on the *"Discussion Paper: Carbon Pollution Pricing: Considerations for Protocol Development in the Federal Greenhouse Gas Offset System"*<sup>13</sup>, which captures more detailed protocol development and implementation proposals and recommendations.

**Demonstration of Activities:** We understand that ECCC is seeking added guidance related to best practice approaches for demonstrating/providing evidence of project activities, start dates etc. Demonstration of activities should be undertaken by collecting evidence that demonstrates that an activity occurred at a specific time and place. Typically, the type and form of required evidence is directly associated with the protocol that is being used. **In fact, IETA strongly believes that "demonstration of activities" is best codified in protocols and not in overarching regulations.** For best practice and workability, IETA encourages ECCC to look to Alberta's "demonstration of activities" experience and approach through offset protocols, associated verification reports, and reviews of a project developer records. Should ECCC insist on inclusion in final regulations, we recommend the following language be used: *"sufficient and appropriate evidence must be collected and used to demonstrate that an activity took place in accordance with the requirements of the protocol being used to quantify any emission reduction or removal"*.

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<sup>13</sup> "Discussion Paper: Carbon Pollution Pricing: Considerations for Protocol Development in the Federal Greenhouse Gas Offset System". ECCC. July 2020. ([Link](#)) IETA Comments on Discussion Paper and Annex. September 2020. ([Link](#) and [Link](#))

## Monitoring and Risk Management Plan Implementation (26-28)

IETA has several concerns and potential solutions related to proposed requirements for bio-sequestration project Monitoring Reports and Risk Management Plan Implementation.

**Extend to 5-Year Monitoring Report Cycle for Bio-sequestration Projects:** Section 27(2) of the proposed regulations requires proponents of bio-sequestration projects to *annually* submit to the Minister a monitoring report for 100 years after the end of the crediting period of the project. For several reasons, **IETA believes this annual monitoring report requirement is excessively onerous, unnecessary and impractical.** First, the characteristics of bio-sequestration projects do not materially change from year-to-year unless an uncontrollable event were to occur (e.g., forest fire, insect infestation, disease etc.). Second, from the view of potential proponents and buyers of bio-sequestration offsets, this additional annual administrative burden will result in unnecessarily higher costs and administrative burdens. Instead of annual bio-sequestration monitoring report requirements, **IETA recommends that ECCC require a more reasonable 5-year monitoring report cycle for bio-sequestration projects.**

**Improving Risk Management Implementation Plan Requirements:** Requiring a Risk Management Plan until the end of a crediting period appears appropriate in most cases; however, **in the case of biological sequestration projects, requiring a Risk Management Plan until the end of the 100-years (after the end of the project crediting period) is unrealistic;** this approach would also result in disadvantaging these projects compared to non-biological sequestration projects. Instead, ECCC should consider **requiring a shorter period after the end of the project crediting period** (e.g., 15 years with possible extension of 15 years). ECCC should also aim to provide publicly-accessible and consistent Risk Management Plan **template documents**, as well as give serious consideration to redefining these Plans as **“living documents”**, which can be regularly updated and evolve as relevant science, data and monitoring technology evolves. Ultimately, the objective of these alternative approaches would be to ensure that project outcomes are supported, not limited, by Risk Management Plans.

## SECTION 3: OTHER CONSIDERATIONS WHILE MOVING FORWARD

**Indigenous Engagement:** As consistently communicated by IETA throughout federal offset system and protocol development consultations, our community strongly supports ECCC’s plan to both frequently and authentically engage with Indigenous Peoples. As federal offset regulations are finalized and protocols are developed/adapted and ultimately implemented, we encourage inclusive consultation and capacity-building efforts across Indigenous communities, with a view to not only realizing but maximizing their participation in project development while supporting ongoing land stewardship efforts.

**Ensure Stability and Predictability:** Stable and predictable protocol development, regulatory requirements and rules are critical and necessary for all market participants to make long-term business and investment decisions. ECCC must avoid introducing uncertainty with unanticipated protocol or market design changes. This “stroke of pen” risk, unfortunately seen far too often in other Canadian carbon markets, will not only limit offset investments but also have a chilling effect on investment across the

broader OBPS program and general confidence in the Canadian policy environment and economy. Dramatic policy changes have a significant negative impact on market growth, investor confidence and the availability of least-cost abatement opportunities needed to accelerate climate action in support of Canada's climate goals.

**Minimize Transaction Costs and Ensure Economic Viability of Protocols:** A broad and meaningful federal offsets market will simply not materialize in Canada if project development and transaction costs are too high or opportunities too limited. It is critical that: federal protocols be economically-viable and include conservative data-driven defaults; offset verification and registry costs be kept reasonable; and aggregated offset project development be enabled while building on existing workable models, like those included in Alberta's long-standing offsets program.

**Enable Canadian Intra-Market Linkages and Fungibility:** IETA applauds ECCC for moving forward with domestic OBPS and offset market development, which allows for intra-Canadian linkages between federal and existing provincial systems. The benefits of market linking are clear: the bigger and broader the market, the wider the range of abatement opportunities, finance and investment interest, technology innovations, and improved efficiencies, resulting in lower program costs and an expanded portfolio of emission reductions. We hope to see continued expansion of market links and credit fungibility not only within Canada but also beyond our domestic borders.

**Enable Canada-International Market Linkages & Fungibility:** Federal protocol and program alignment should also be guided by the principle of achieving compatibility with Internationally Transferred Mitigation Outcomes (ITMOs) and cooperative approaches, as established under Article 6 of the Paris Agreement. International cooperation, enabled through Article 6 carbon market mechanisms, has the potential to reduce total costs of implementing NDCs under the Paris Agreement by US\$320 billion annually by 2030, an amount that could result in ~9GtCO<sub>2</sub> in additional mitigation.<sup>14</sup> While finalizing with federal offset credit system regulations and launching the protocol development process, we urge the Carbon Pricing Bureau to review IETA comments, submitted to ECCC international climate negotiators on 18 March 2021, in response to Canada's *"Draft ITMO Framework and Proposed Approach to Article 6"*<sup>15</sup>.

**Ensuring Competitiveness and Future Border Carbon Adjustment Considerations:** Pursuit of NDCs and net zero commitments must always be mindful of potential impacts on the competitiveness of key sectors of Canada's economy, especially in the event that key trading partners have adopted less ambitious targets. Enabling international cooperation will increase the competitiveness of Canadian industry and minimize the potential for economic or carbon leakage. According to Canada's proposed 2030 Climate Plan, the Federal Government intends to "explore the potential application of Border Carbon Adjustments (BCAs)" and work with "like-minded economies", namely the EU and North American partners, to consider how these trade mechanisms could impact Canada's climate strategy, ability to meet targets and/or impact the country's competitiveness. With this in mind, it is important for Canada to finalize the federal

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<sup>14</sup> "Economic Potential of Article 6" IETA, University of Maryland, CPLC. September 2019. ([Link](#))

<sup>15</sup> "Draft ITMO Framework and Proposed Approach to Article 6". ECCC. February 2021 ([Link](#)). IETA Comments, submitted to ECCC on 18 March 2021 ([Link](#)).

offset regulations in a swift manner, recognizing the urgent need to unlock low-cost supply of compliance units while achieving measurable climate performance in a manner that is not only defensible but also aligned with international trade partners.

**Strategic Offset Protocol Development and Coordination for “Clean” Canadian Exports:** As IETA has voiced numerous times in the past to Canadian officials and other stakeholders, it is prudent for Canada to pursue offset protocol development approaches in a strategic manner, prioritizing opportunities that could promote both domestic and international uptake and scaling of Canadian “clean” exports (products and services). As such, IETA was pleased to see explicit reference to this consideration in Canada’s proposed 2030 Climate Plan, which states: “Canada will continue to push for strong rules for international carbon markets (Article 6) to establish a credible regime that is based on environmental integrity and provides predictability and certainty for investors and Canada’s exporters of clean technology solutions”. While finalizing the federal offset regulations and moving forward with implementation and priority protocol development, IETA hopes to see close coordination between ECCC’s domestic Carbon Pricing Bureau along with the international climate unit and other key Ministries, such as Natural Resources Canada and Global Affairs Canada.

## CONCLUSION

IETA appreciates this important opportunity to record our comments on the *Proposed Federal GHG Offset Credit System Regulations*. We welcome ECCC to reach-out directly with any questions or follow-up requests related to our insights and recommendations by contacting **IETA Managing Director, Katie Sullivan**, at [sullivan@ieta.org](mailto:sullivan@ieta.org).