



## Carbon Credit Update Bulletin - July 2006

### *Carbon Credits and the State of Canada's Greenhouse Gas Offset System*

Currently, there is no federally approved carbon credit market in Canada. Talk, to date, has centered on a **proposed** program for buying and selling domestically created carbon credits. A plan for managing Canada's GHG emissions is not expected to be released by the federal government until *Fall 2006*.

Producers should keep in mind that companies attempting to contract with agricultural producers for delivery of carbon credits are doing so purely on speculation, and that buyers' interests (how much to buy, when to buy, etc.) will be influenced by the establishment of a federally accepted carbon credit trading system.

Without an established system in place to approve greenhouse gas reduction projects, there is a risk that the kinds of management practices carbon marketers are asking farmers to adopt won't be accepted as valid greenhouse gas (GHG) reduction practices. Further, there is an additional risk that if the change in practice, itself, is accepted, the quantity of credits that the practice creates on the farm could be larger or smaller than the quantity that a producer has been contracted to deliver to the market.

Contracting now, at this uncertain stage, requires an understanding of the risks associated with speculating in a market that has no legal framework established. A checklist, included below, outlines a number of key points for producers to consider when negotiating with a company interested in purchasing agricultural carbon credits.

There is *one* carbon market that a Canadian hog producer may choose to become involved in currently, the Chicago Climate Exchange (CCX) ; <http://www.chicagoclimatex.com/> The CCX is a voluntary emissions trading floor where GHG emitting companies, seeking to reduce their long-term risk due to new emerging GHG emissions regulatory frameworks, can get a head start on their emissions reductions.

Methane capture and combustion from manure storage systems is the only practice currently being considered by the CCX as a real GHG reduction project opportunity for the livestock sector. However, Canadian research hasn't yet proven the potential for manure storage covers installed on unheated manure storages to reduce GHG emissions. This practice works in some of the more southern US climates, but not necessarily here in Canada, so producers should not be convinced otherwise by anyone, especially a carbon aggregator.

Storage covers provide GHG benefits in terms of reduced ammonia emissions and may have the potential to be coupled with a flare or biofilter system in the future to manage methane emissions. At

this time, no protocols exist to allow the quantification of GHG reductions using storage cover technology, and therefore should not be considered a viable technology for creating carbon credits.

Given this, enhancing methane emissions in an anaerobic digestion unit and burning the methane for either electricity or heat generation is currently the only practice that would make a Canadian hog producer eligible for trading carbon credits on the CCX.

The Canadian Pork Council, in association with provincial pork associations, is also currently developing a draft GHG quantification protocol for the Canadian pork industry and is exploring the possibility of testing the protocol in the near future. The protocol has been developed based on the most accurate Canadian and international GHG science available, and has been built to be directly applicable to the modern Canadian pork industry. The protocol will allow a broad suite of beneficial management practices to be considered for the creation of GHG reduction projects on Canadian hog farms.

For further information on the current state of the carbon market in North America, or the Pork Sector GHG Protocol project being administered by the Canadian Pork Council, please contact:

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## Carbon Credit Agreement Negotiation Checklist

- Are the offset credits being measured/quantified with scientifically acceptable methods? Has the quantification protocol been approved by the Canadian federal government?
- Who has ownership of the offset credits? If you are leasing land or a barn from someone else, who really owns the credits? If you are on a public lease, who owns the credits? - The issue of ownership has not yet been fully clarified
- If the contracted management practice results in increased soil carbon storage, what happens if the soil carbon is released due to a change in management practice – who is liable – how will this risk be dealt with? Someone will have to be liable for the stored carbon, and proposed rules may require the carbon to be maintained in the soil for up to 25 years.

*The risks associated with credits created through soil carbon storage is not as pertinent to the livestock as it is to the cropping sector, however, the issue of practice change after a carbon delivery contract has been signed is something that each agricultural producer should consider.*

- Is the management practice resulting in the proposed package of carbon credits required by law or have you accepted federal incentives to implement the practice? If so, the carbon credit may not be eligible for sale.
- What kind of change in management practice will be required to generate the carbon credits? Is it different than the farm management practices you use currently? In order to generate carbon credits a farm is required to change practices from the business as usual scenario.

*This means that a change in practices has to have been adopted specifically to generate carbon offsets, not for other reasons of regulatory pressures, etc. The year 2000 is considered a likely choice as a baseline year, therefore as long as management practice changes weren't made before 2000, they will likely be eligible to generate carbon credits.*

- How complex is the management practice change and how positive is the business case for changing practices without the carbon credit revenue? Who will be liable for maintenance, repairs, labour, etc., if the practice change involves the installation of new equipment or technologies?
- What third party company is going to verify the practice change and who is responsible for collecting records? What kinds of records must be kept?
- What is the payment schedule in the contract (weeks, months, years)? How complex is the contract? Should a producer seek legal advice? Who's liable for what? What happens if you can't deliver your contracted carbon package?

***It is highly recommended that a producer who is considering entering any sort of agreement to deliver carbon offsets to any marketplace, seek legal council before signing any legal agreements.***

- What is the price being offered in the contract now? Will the price be renegotiated regularly to account for changes in the market price of carbon credits? Prices will rise and fall depending on market and policy development in the future so a flexible pricing program is important to consider.