



November 7, 2003

Canadian Hog Producers and Carbon Credit Trading

Considerable attention is currently being devoted to the issues of climate change and global warming and the options which may exist for Canada to mitigate this change. The Canadian Pork Council, through the Greenhouse Gas Mitigation Program for Canadian Agriculture administered through Agriculture and Agri-Food Canada, is actively involved in planning for the future, in terms of environmental stability and sustainability as related to climate change.

The Canadian pork sector has a long standing reputation for being progressive in adopting technologies and management practices that maximize natural resource stewardship. Currently, the Government of Canada is suggesting that the Canadian agriculture sector as a whole is capable of reducing its production of greenhouse gases by 10 million tonnes or more by 2008 in order to assist Canada in reaching its targeted greenhouse gas (GHG) emission reduction.

Examples of greenhouse gases produced from agriculture include carbon dioxide released from soils through cultivation, gaseous losses of fertilizer and manure nitrogen as nitrous oxide, methane released from the rumen of ruminant animals, or methane produced within liquid manure storages. Cost effective means of reducing the release of these gases into the atmosphere are currently being validated and demonstrated across Canada through the Greenhouse Gas Mitigation Program for Canadian Agriculture.

Large Industrial Emitters (LIE) account for much of Canada's annual greenhouse gas emission inventory. To facilitate the Kyoto compliance of these heavy industries, the Government of Canada has proposed that a domestic emissions trading system be established. This will allow heavy emitting industries to acquire the right to emit greenhouse gases by purchasing reductions made elsewhere in the country.

Agriculture will likely contribute by clustering many small mitigation projects under one central administrative blanket to allow LIEs to purchase offset credits in large quantities. This will also serve to lighten administrative burdens for all involved. As such, numerous firms have begun designing administrative frameworks to allow this aggregation to be achieved in a timely manner and provide potential offset credits for 2008.

The process for purchasing offset credits will likely consist of a broker aggregating a number of credits, created by numerous projects with the adoption of technologies or management practices, verification of the credit authenticity, and sale to the buyer. In Canada and the US, there are brokers who have progressed to a point where contractual agreements are being drafted and signed to supply credits into this sort of trading system.

Pork producers, if considering entering into agreements to sell or lease *potential* credits into a carbon credit trading system, should be aware that the design of these systems in Canada are still in the early stages of development. Many details have yet to be fully examined within the proposed system. Further,

it is unclear to what extent on-farm management changes will mitigate GHGs under Canadian conditions, thus the number of credits being sold may be speculative¹. If credits are sold into any carbon market and subsequent verification of the on-farm practices reveal that the GHG reduction is less than previously anticipated, the responsibility for achieving these reductions could be transferred back to the producer. A producer may, in these circumstances, be required to purchase offset credits from elsewhere within the carbon credit trading system to account for the shortfall.

The CPC is in favour of Canadian pork producers being able to participate in carbon credit trading systems, as an opportunity to achieve additional on-farm income. Until more is known about the mechanisms of the system and the expected credits that will be achieved from the adoption of specific farm management practices and/or technologies, producers are encouraged to take precautions to fully understand any obligations for the sale of credits into which they may be entering. These obligations may include the duration of a contract term and any expenditures that may be required to develop carbon credits.

For more information:

Cedric MacLeod
613.236.0011
macleod@cpc-ccp.com

¹ Activities through the Greenhouse Gas Mitigation Program for Canadian Agriculture, in which the Canadian Pork Council is participating, facilitate the development of verifiable, science based GHG emission reduction values that are applicable to Canadian conditions