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1. Introduction

This *Carbon Pricing Policy Backgrounder* provides background and contextual information on carbon pricing policy. It is intended to support understanding of carbon pricing policy in British Columbia, as well as the Ministry of Environment’s consultation and regulatory development process – such as consultation papers on the Emissions Trading and Offsets Regulations. See:
<http://www.env.gov.bc.ca/cas/mitigation/ggrcta/>

The most expensive option to address the impacts from climate change is to do nothing and deal with the consequences. Numerous examples from independent modeling in North America, Europe and by the United Nations Intergovernmental Panel on Climate Change indicate that the costs attributed to impacts from climate change – such as sea level rise, agricultural crop losses, higher energy costs, health and health related costs – drastically outweigh the costs of mitigating impacts from climate change by putting a price on carbon.¹ As a result, British Columbia is taking proactive measures within the province and actively promoting climate mitigation policies and initiatives abroad.

The provincial Government has committed in legislation to reduce B.C.’s greenhouse gas emissions by at least 33 per cent below 2007 levels by 2020.² In 2008 the Government released its Climate Action Plan outlining a number of strategies and initiatives underway and under development in

¹ See, for example: *The Stern Review: Economics of Climate Change*, United Nations Intergovernmental Panel on Climate Change (IPCC) *4th Assessment Report*; Western Climate Initiative (WCI) *Updated Economic Analysis of the WCI Regional Cap and Trade Program – July 2010*.

² The *Greenhouse Gas Reduction Target Act* puts into law British Columbia’s target of reducing greenhouse gas emissions by at least 33% below 2007 levels by 2020 and includes the long-term target of an 80% reduction below 2007 levels by 2050. See: www.env.gov.bc.ca/epd/codes/ggrta. In 2007 British Columbia GHG emissions were 68 019 kt CO₂e. For more information and reports of British Columbia GHG emissions in 2007 and 2008 see the ministry’s GHG inventory homepage: www.env.gov.bc.ca/cas/mitigation/ghg_inventory/index.html.

order to help achieve this goal.³ Carbon pricing policies are identified in the Climate Action Plan as key strategies for reaching provincial greenhouse gas emission targets.

2. Carbon Pricing Policy in British Columbia

Carbon pricing policy refers to the principle of applying a market price on greenhouse gas (GHG) emissions to reflect the value or cost of environmental damages that they cause. In this paper, the term “carbon emissions” is used generally in reference to greenhouse gas emissions.⁴

Carbon pricing is widely considered the primary policy tool for lowering carbon emissions.⁵ Establishing a price on carbon can be achieved:

- ◆ By government applying a fixed charge per tonne of carbon emitted.⁶ The British Columbia Carbon Tax is an example of applying such a charge on carbon emissions.
- ◆ By creating a market for carbon emissions – whereby government puts a fixed ceiling on the amount of carbon emissions allowed. The set amount (or “cap”) on carbon emissions, fixes the supply (“ability to emit carbon”) in the market. This generates scarcity of carbon emissions in the market and a demand for obtaining the ability to emit carbon. It is this demand that establishes a price on carbon in the market.⁷

A carbon tax and a cap and trade system are similar and complementary carbon pricing policy tools. British Columbia intends to utilize these carbon pricing policy tools in combination. A carbon tax provides carbon price certainty through its direct application of a fixed carbon price. A cap and trade system enables the application of a fixed emission reduction threshold on specific industrial sectors of the economy. Participation in a broader (i.e., regional) cap and trade market lowers compliance costs for British Columbia businesses and industries while achieving reductions in greenhouse gas emissions.

2.1 Establishing a fixed charge on carbon in B.C. – “carbon tax”

What is a carbon tax?

The British Columbia revenue-neutral carbon tax was implemented on July 1, 2008. The carbon tax puts a direct price on each tonne of carbon (or GHG emitted) thereby sending a price signal that will, over time, elicit a market response across the economy to reduce carbon emissions. All revenues from the carbon tax are returned to tax payers in British Columbia through reductions in other

³ See the B.C. Climate Action Plan: www.env.gov.bc.ca/cas/cap.html.

⁴ The term GHG refers to the six greenhouse gases included under the international Kyoto Protocol carbon dioxide, methane, nitrous oxide, nitrogen trifluoride, sulphur hexafluoride, hydrofluorocarbons and perfluorocarbons.

⁵ *The Stern Review: Economics of Climate Change* identifies carbon pricing as the first essential element of climate policy (Part IV – Policy Responses for Mitigation). The National Round Table on the Environment and the Economy (*Achieving 2050: A Carbon Pricing Policy for Canada*), the United Nations Intergovernmental Panel on Climate Change (*4th Assessment Report*), the PEW Center on Global Climate Change and many other organizations and agencies identify carbon pricing as key policy for mitigating greenhouse gas emissions.

⁶ Charges on carbon emissions are established using “carbon dioxide equivalent” (CO₂e) as a common unit, reflecting the relative carbon intensities of greenhouse gases other than carbon dioxide, such as methane and nitrous oxide. In this paper, the term “carbon emissions” refers generally to all greenhouse gases covered by B.C. climate policy.

⁷ “Command and control” policy (i.e., putting a direct limit on emission levels for industrial sectors without use of carbon markets) could be considered as implicitly putting a price on carbon through the abatement costs that would be required to achieve mandated emission levels. This policy option is not discussed in this backgrounder.

taxes. Individuals and businesses that consume fossil fuels in B.C. are subject to the carbon tax.⁸ It applies to the retail purchase or use of fossil fuels in British Columbia, such as gasoline, diesel, natural gas, heating fuel, propane and coal – and to peat and tires when used to produce energy (including heat).⁹

Why does British Columbia use a carbon tax to incent emission reductions?

Establishing a price on carbon in B.C. through the carbon tax provides a clear incentive to reduce the use of fossil fuels and limit carbon emissions – as well as promoting the use of lower carbon content fuels and energy efficiency in households and businesses. Energy efficiency gains have the added benefit of long term cost savings for energy users. Cumulatively, this will help B.C. shift to a low-carbon economy. Pricing carbon will stimulate new economic growth and development in markets such as bioenergy and green technology products and services, and also provide new job opportunities for British Columbians

The carbon tax has the advantage of providing an incentive to reduce carbon emissions without favouring any one way of doing so. Businesses and individuals can reduce the amount they pay in carbon tax – even down to zero – by reducing fuel consumption, increasing fuel efficiency, using cleaner fuels and/or adopting new technologies.

The carbon tax is comprehensive, in that it covers all sectors of the economy that consume fossil fuels and covers fossil fuel use at the individual/or household level. It is also transparent, as it is applied directly at the point of purchase. Carbon tax costs are directly dependent on the carbon intensity of the fuels consumed. As a result, the carbon tax is applied indiscriminately across industrial sectors and households solely based on the carbon intensity of the fuel type.

Carbon tax costs are fixed in legislation and are increased over time to incent further carbon emission reductions.¹⁰ Fixing the carbon tax costs provides businesses with carbon price certainty so that they can build these costs into business models and future projections of costs of production.

2.2 Establishing a price on carbon via regional market – “cap and trade”

What is a cap and trade system?

A cap and trade (or emission trading) system sets an absolute limit on the quantity of carbon emissions across specified industrial sectors of the economy. Emission reductions are then realized by lowering the limits (or *caps*) are then lowered over a specified time.

Allowances (permits for each tonne of carbon emissions¹¹) are issued to industrial facilities within the system or “within the capped sectors of the economy” up to the predetermined cap. The number of allowances issued is equal to the total allowable emissions for the province. The distribution

⁸ All emissions from fossil fuel combustion in B.C. captured in Environment Canada’s National Inventory Report will be taxed, with no exemptions except those required for integration with other climate action policies in the future and for efficient administration.

⁹ For more information on the B.C. revenue-neutral carbon tax see: www.fin.gov.bc.ca/tbs/tp/climate/carbon_tax.htm

¹⁰ B.C. carbon tax costs increase at a rate of \$5 per tonne of CO₂e emitted per year from the initial level of \$10 per tonne in 2008 up to \$30 per tonne in 2012.

¹¹ Allowances cover all GHGs covered by B.C. climate policy and are equivalent to one metric tonne of carbon dioxide equivalent (CO₂e).

of allowances in the system provides certainty that the target for carbon emission reductions in the covered sources is met.¹²

Facilities within a cap and trade system are permitted to sell or *transfer* allowances to other facilities within the system. Facilities that can reduce their carbon emissions below their total allowance can sell excess/unnecessary allowances. Revenue obtained from selling allowances combined with any long term cost savings from energy efficiency benefits allows businesses to realize a profit from reducing carbon emissions. In this way, the cap and trade system uses the marketplace to reward efficiency and innovation.

What is the role of carbon offsets in a cap and trade system?

In addition to allowances, another form of a “permit for emitting carbon” that is used within cap and trade systems are *carbon offsets*. Offsets represent emission reductions, and like allowances, the unit of measurement for offsets is a metric tonne of carbon emissions.¹³ Offsets can be used in addition to allowances to account for the total carbon emissions of industrial facilities. A limit is placed on the extent that offsets can be used (relative to allowances) to ensure that a majority of carbon emission reductions occur within the capped sector and at the facility level.

Offsets provide a mechanism for utilizing a broader range of carbon emission reduction opportunities, increasing flexibility and reducing the cost of compliance in a cap and trade system. Lower compliance costs lowers costs to consumers, supporting pursuit of aggressive carbon emission reduction targets. Offsets also encourage carbon emission reductions, innovation, new economic opportunities and technology development in sectors of the economy not covered by the cap and trade system, thus supporting an economy wide approach to climate action.

An *offset project* consists of a specific activity or set of activities intended to reduce GHG emissions, to increase the storage of carbon or to enhance GHG removals from the atmosphere. Offsets must derive from emission reduction projects in sectors not covered by cap and trade obligations.¹⁴

Offsets in a cap and trade system differ from those that an individual may purchase voluntarily to offset carbon emissions¹⁵ in that they are subject to a regulatory market that enforces a number of rigorous principles – such as ensuring the validity of carbon emission reductions and that they are tracked and retired for compliance purposes. However, an individual or business entity can choose to establish an account in a compliance unit tracking system and voluntarily purchase compliance units and/or compliance grade offsets. In so doing, the party would be assured that the offsets represent a high standard of environmental integrity.

¹² Facilities that do not have adequate compliance units (allowances and offsets) to account for their total emissions at the end of a compliance period are met with severe penalties such as the requirement to surrender three allowances for every one allowance not in possession at the time of compliance.

¹³ Units for offsets are also CO₂e.

¹⁴ Emission reduction activities in facilities that have a compliance obligation under the cap would lower a facility’s compliance obligation under the program (and may free up allowances for that facility to sell). Such emission reduction projects would be ineligible for offsets – as doing so would result in a double counting of the emission reduction.

¹⁵ For instance, to offset carbon emissions from an air flight or other transportation.

2.3 Using both carbon pricing policies in British Columbia

Both the carbon tax and a cap and trade system address the market failure that exists when the value or cost of environmental damages from carbon emissions is not included in the market price of fossil fuels or other activities that emit carbon. The carbon tax is a key element in the province's overall strategy however, additional measures are necessary for British Columbia to meet carbon reduction targets. To avoid unfairness or the potential of "double taxation", the carbon tax and other carbon pricing measures (such as a cap and trade system) will be designed and implemented in a complementary and integrated manner.

Why implement a cap and trade system in British Columbia in addition to a carbon tax?

Like a carbon tax, a cap and trade system provides an incentive to reduce carbon emissions without favouring any one way of doing so, leaving it up to industries and business to find the best and most cost effective ways to reduce carbon emissions. The cap and trade system however, would apply to activities in the B.C. economy that are not currently subject to the carbon tax – such as non-fossil fuel combustion or process emissions from industry. These industrial process emissions comprise almost one third of B.C.'s emissions inventory. A cap and trade system would be the main policy tool to drive emission reductions in these industrial sectors. The cap and trade system can be designed to ensure that carbon emission targets for specific sectors are met. Also, due to the fact that the market dictates the carbon price, it ensures efficient carbon price discovery. Furthermore, by creating a carbon market across a diverse set of emission sources with the potential to link to other regional or global carbon markets, a cap and trade system provides a wider range of emission reduction opportunities and economic opportunities than would be available solely under a provincial carbon tax.

Cap and trade systems have proven successful instruments for reducing air pollution, such as in acid rain programs in the north-eastern United States and carbon emission reduction programs in Europe and New Zealand. A cap and trade system is also considered one of the most cost effective and reliable strategies for pricing carbon emissions and providing emitters with an incentive to limit pollution.

2.4 The Western Climate Initiative cap and trade system design

What is the Western Climate Initiative?

In 2007, B.C. joined the Western Climate Initiative (WCI),¹⁶ a coalition of seven U.S. states and four Canadian provinces that have been working together since 2007 to identify, evaluate and implement policies to address climate change.¹⁷ In August 2007, the WCI set an aggregate regional greenhouse gas emission reduction goal of 15 per cent below 2005 levels by 2020. B.C. and its WCI partners have been working together to develop the design for a regional cap and trade system that includes significant contributions from numerous stakeholders in all WCI regions. The design for the WCI regional program, released on July 27, 2010, is intended as a roadmap to inform WCI partner jurisdictions as they implement the WCI cap and trade program in their jurisdictions.¹⁸

¹⁶ See: www.westernclimateinitiative.org

¹⁷ The WCI is a collaboration of U.S. states and Canadian provinces, including British Columbia, Quebec, Ontario, Manitoba, Arizona, California, New Mexico, Oregon, Washington, Utah and Montana (with Saskatchewan, Nova Scotia, Yukon], as well as additional U.S. and Mexican states, participating as "observer" jurisdictions).

¹⁸ See: www.westernclimateinitiative.org/designing-the-program/

What is the advantage of being a WCI partner?

B.C. is working with the Western Climate Initiative (WCI) partner jurisdictions to create a regional carbon market across a diverse set of emission sources. The larger the carbon market, the greater the range of emission reduction opportunities available to emitters and the lower the cost of compliance. The WCI region is home to over 82 million people with a collective GDP of \$3.6 trillion CAD, representing 73 percent of Canada’s and 20 percent of the United States’ economies. Implementing a regional cap and trade system through the WCI ensures that a carbon price is set broadly across the entire region. Businesses throughout the region are subject to the same carbon costs and the same incentives to use less fossil fuel, maximize energy efficiency, develop new technologies and ultimately reduce regional emissions. WCI economic modeling has shown that emission reduction goals can be met across the region with a net savings of \$100 billion over the 2012-2020 period.¹⁹

How does the WCI cap and trade system design integrate with B.C. carbon pricing policy?

British Columbia and WCI partner jurisdictions are each utilizing the WCI design framework for their respective cap and trade systems and to inform corresponding of cap and trade legislation.

The WCI cap and trade system has two phases of coverage – with the first phase proposed to begin on January 1, 2012 and a second phase starting in 2015.

Each WCI partner jurisdiction implementing the cap and trade program will issue allowances to meet its jurisdiction-specific carbon emissions goal. A regional market is then created by the partner jurisdictions agreeing to accept one another’s allowance and offsets units for compliance. Facilities or businesses in B.C. could then buy, trade or sell these units to other businesses/facilities within the WCI region.

There will be no restriction on ownership of allowance and offset units – they could be sold between and among covered facilities or third parties. Facilities that reduce emissions below the number of allowances (and offsets) that they hold will be able to either sell the units or hold (or “bank”) them for later use. There is no limitation planned on how long these units may be banked. Entities would “turn in” compliance units covering three-year periods – providing flexibility as to when emission reductions are made and when compliance units are acquired. Selling excess allowances and offsets would allow an entity to recoup some emissions reduction costs, while banking compliance units would lessen future compliance costs. This ability to trade provides flexibility in how and when reductions are made.

With a carbon tax already in place, B.C. has a head start on other WCI partners for the first phase of the program. See figure 1 (on the following page) for a comparison of coverage of GHG emission sources between B.C. and other WCI partner jurisdictions in 2012 and 2015.

Under the WCI design, facilities emitting more than 25,000 tonnes of carbon dioxide equivalent (CO₂e)²⁰ – including industrial process and fugitive emissions, and importers of thermal electricity from a non-WCI jurisdiction – would fall under the cap and trade system.

¹⁹ *WCI Updated Economic Analysis of the WCI Regional Cap-and-Trade Program*, July 2010.

See: www.westernclimateinitiative.org/component/repository/Economic-Modeling-Team-Documents/

²⁰ Not including CO₂ from most biomass sources.

In B.C., “downstream” combustion of gasoline, diesel, marine and aviation fuels and residential, commercial and industrial (below the cap and trade compliance threshold) use of natural gas, propane and home heating oil would *not* fall under the cap and trade program as they would continue to be subject to the province’s carbon tax.

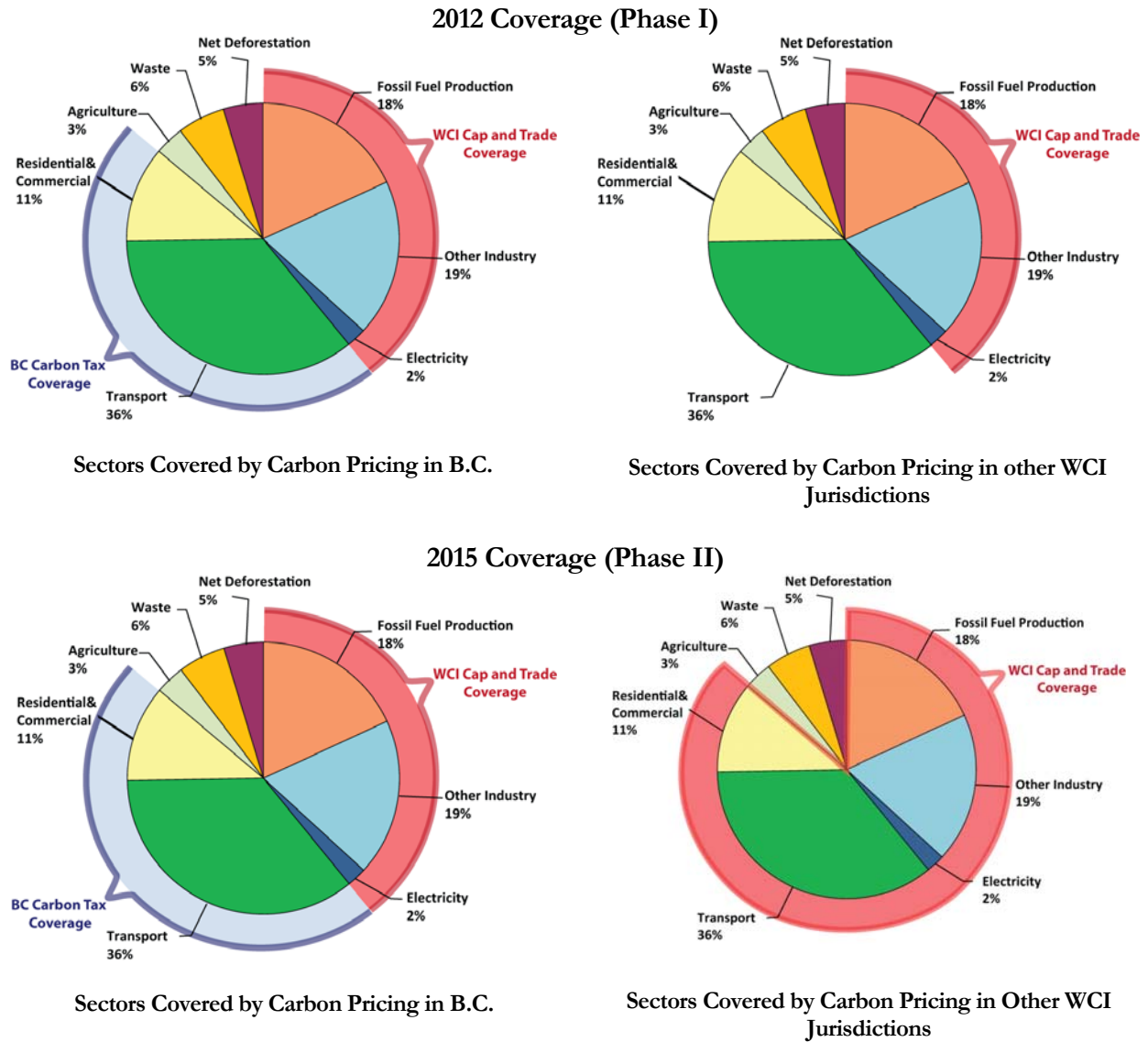


Figure 1: B.C. and WCI partner coverage of GHG emissions – 2012 and 2015

Note: The pie charts in figure 1 are for illustrative purposes only and emission profile percentages for each sector are representative of emissions in British Columbia. Each WCI partner jurisdictions will have different emission profile percentages for each of their corresponding industrial sectors.

What is the relationship between allowances and offsets in the WCI design?

Facilities under the WCI cap and trade system will be required to account for their covered carbon emissions at the end of each compliance period. Both allowances and offsets can be used to account for emissions however, offsets may only be used in limited quantity.²¹

At the beginning of the cap and trade program, allowances in proportion to the total of all facility emissions are distributed by government.²² As such, allowances are the primary compliance unit used to account for emissions.

At the end of each compliance period, each facility governed under the cap must surrender sufficient allowances or offsets to government to account for their covered emissions during the period. The WCI design allows for offsets to account for up to 49% of the cumulative emission reductions achieved across the trading system.²³ As illustrated in figure 2 below, reductions will be measured in comparison to the initial level of emissions across the system (“Baseline” column – 1000 units). If 200 units of emission reductions are required under the cap, at least 51% of the reduction must be achieved by the covered facilities and no more than 49% of the emission reductions may come from offsets.

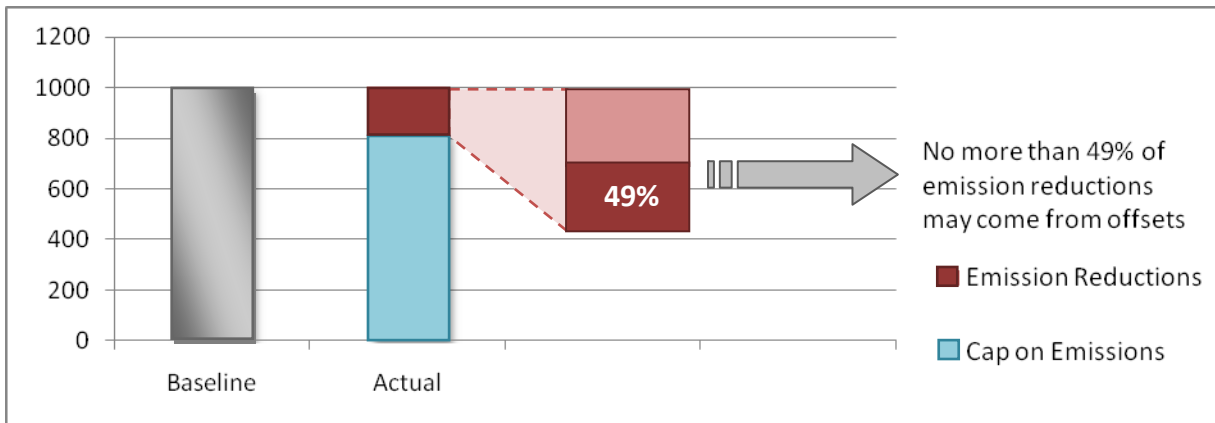


Figure 2: Hypothetical depiction of emission reductions under a cap and trade system where the 49% offset limit applies to the emission reduction component

²¹ The WCI detailed program design allows for the use of up to 49% of the total emission reductions required by WCI partners through 2020 to be achieved via offsets or allowances from other cap and trade systems.

²² Refer to Ministry of Environment Emissions Trading Regulation consultation paper for details and specifics on allowance distribution.

²³ Emission reductions could occur at the facility (with the facility surrendering unneeded allowances) or elsewhere (emission reductions in another sector from offsets, or through purchase of additional allowances from within the cap and trade system from another facility that has reduced its emissions and has unneeded allowances).

3. Carbon Pricing Legislation in British Columbia

There are two main pieces of overarching legislation governing carbon pricing in B.C. – the *Carbon Tax Act* and the *Greenhouse Gas Reduction (Cap and Trade) Act*. Both Acts received Royal Assent on May 29, 2008.

The *Carbon Tax Act* provides the authority to establish a direct carbon price on the combustion/use of fossil fuels in British Columbia. Regulations pursuant to the *Carbon Tax Act* have been implemented in order to enable direct carbon pricing on fossil fuels in B.C.

The *Cap and Trade Act* provides the statutory basis for setting up a market-based cap and trade framework to reduce greenhouse gas emissions from large emitters operating in the province and enables B.C.’s participation in the WCI system. The *Cap and Trade Act* also provides the authority for developing and procuring offsets. The *Cap and Trade Act* is consistent with the recommendations of the design for the WCI regional program. The Reporting Regulation is the first regulation under the *Cap and Trade Act*. Provisions on compliance and enforcement under the *Cap and Trade Act* are planned follow in 2011.

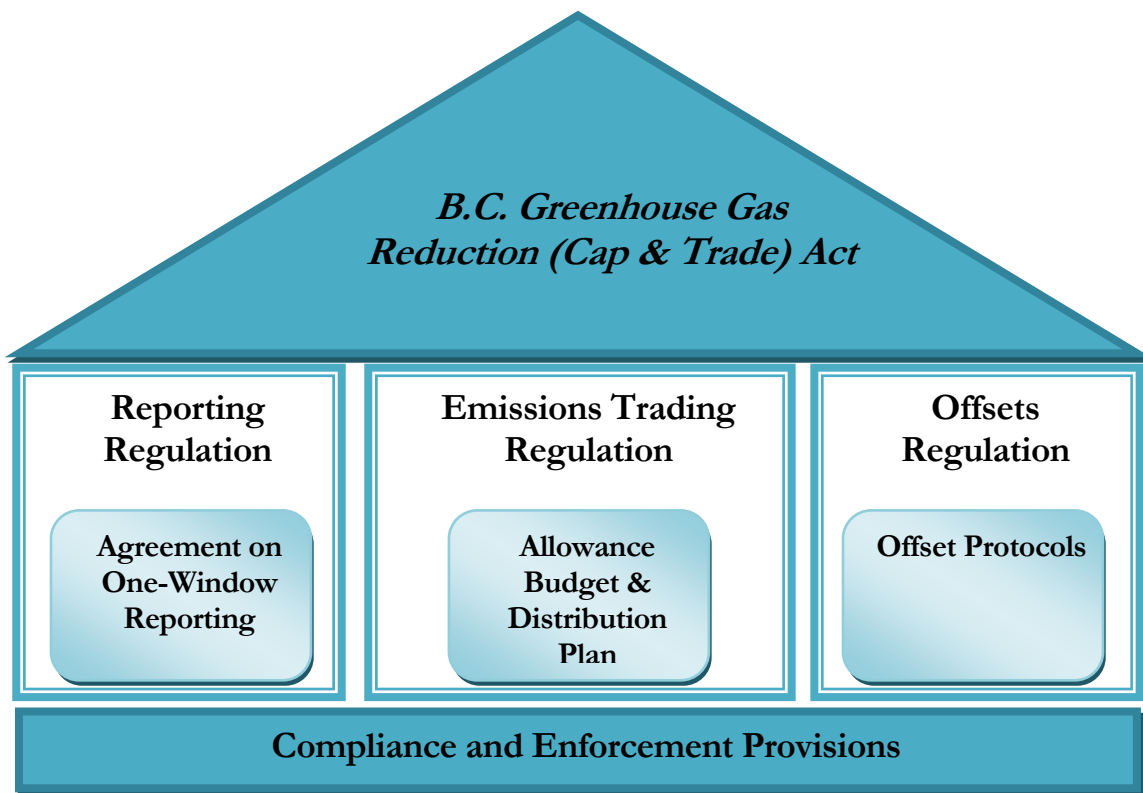


Figure 3: British Columbia cap and trade legislation

The Climate Action Secretariat of the Ministry of Environment is in the process of developing the Emission Trading Regulation and the Offset Regulation under the *Cap and Trade Act*. The development process consists of five phases:

1. **Scoping** – including work with the Western Climate Initiative design process and commissioned assessments of specific technical issues and ministry staff assessment of issues and alternatives.
2. **Ministry Consultation Papers** – outlining the ministry’s proposed approach for the emissions trading system and the regulation of offsets in British Columbia.

3. **Consultation** – with affected stakeholders and the general public, using the consultation papers and response forms posted on the ministry website, as well as through ongoing activities of the Climate Action Secretariat and the Western Climate Initiative.
4. **Drafting** – preparation of legal language for consideration by the Minister and Lieutenant Governor-in-Council.
5. **Implementation** – informing ministry staff and external stakeholders, and developing guidelines and/or best management practices.

This *Carbon Pricing Policy Backgrounder* is intended to support understanding of carbon pricing policy in British Columbia, as well as the ministry consultation and regulatory development process. See the CAS website for further information and to download consultation papers and response forms: <http://www.env.gov.bc.ca/cas/mitigation/ggrcta/>

3.1 GHG Reporting Regulation

The cap and trade system includes a rigorous emissions reporting requirement that ensures accurate and timely measurement and recording of GHG emissions by the entities included in the system. Reporting carbon emissions through B.C.'s Reporting Regulation has been instituted in advance of implementing a cap and trade system to accurately establish the level of emissions to help set the cap for 2012. The cap will be based on projected emissions in 2012 and subsequent years.

The existing Reporting Regulation is being expanded to complete coverage of imported electricity and revised to reflect refinements to upstream oil and gas emissions quantification by December 2010.²⁴

3.2 Emissions Trading Regulation

The proposed Emissions Trading Regulation is intended to establish an efficient, fair market with clear rules on how allowances are created, distributed for free or auctioned, traded, tracked and retired for compliance.

Development of the Emissions Trading Regulation has been informed by the *Design for the WCI Regional Program*. The regulation applies to facilities emitting 10,000 tonnes of CO₂e or more. Those facilities emitting 25,000 tonnes of CO₂e or more are defined as **regulated operations** and will be subject to the regulation on the basis of emissions source and overall emissions. The Emissions Trading Regulation will also define the process for distributing **allowance units** under the cap and trade system – including auction and/or free allocation processes, allowances available under the system (the **cap**), requirements of the compliance unit tracking system (**registry**), ensuring appropriate regulatory oversight and ensuring oversight of the carbon market in terms of transparency of activity and participation of appropriate market stakeholders.

The Emissions Trading Regulation will enable the development of annual allowance distribution plans by the Ministry of Environment across three year allowance budget periods and will allow integration with the broader WCI regional cap and trade system and carbon market.

A consultation paper providing additional information on the proposed regulation (and accompanying response form) can be viewed and downloaded from the CAS website or directly from: www.env.gov.bc.ca/cas/mitigation/ggrcta/emissions-trading-regulation/.

²⁴ See: www.env.gov.bc.ca/cas/mitigation/ggrcta/reporting-regulation/index.html

3.3 Cap and Trade Offsets Regulation

Offsets are a key component of a cap and trade system as they reduce compliance costs for facilities while ensuring that the system achieves real reductions in carbon emissions. The proposed Cap and Trade Offsets Regulation will govern the development and recognition of carbon offsets, consistent with the offset design recommendations of the WCI and will build on the existing regulation introduced in 2008. The regulation established requirements for offsets to be retired against the carbon neutral government commitment. The new regulation will include new steps for offset process registration, validation, monitoring, quantification, reporting, verification, certification and issuance of offsets – so that offset units can be traded and used for compliance across the WCI region.

The Cap and Trade Offsets Regulation will provide the basis for a protocol-based offset system, establishing approved offset protocols for emission reductions projects and/or programs (aggregated projects over a defined program area). The regulation will enable the development of “compliance grade offsets” that facilities can then use to fulfill a portion of their compliance obligation. Approved protocols will define project type/program area and establish rigorous environmental standards and process requirements. Protocols are intended to ensure that offsets achieve real reductions in carbon emissions, and that emissions are verifiable, additional, permanent and enforceable.

Project developers with emission reductions that meet the requirements of the proposed regulation will be issued British Columbia Emission Reduction Units (ERUs). The ERUs will be delivered to an account held in a “Compliance Unit Tracking System (CUTS)” by the project developer for internal use or for sale into the carbon market. Buyers of ERUs could include regulated operations acquiring offsets to meet compliance obligations under the *Cap and Trade Act*, the Government of B.C. for meeting its carbon neutral government commitment or entities seeking to offset carbon emissions voluntarily.²⁵

A consultation paper providing additional information on the proposed amendments to the regulation (and accompanying response form) can be viewed and downloaded from the CAS website or directly from: <http://www.env.gov.bc.ca/cas/mitigation/ggrcta/offsets-regulation/>

4. Carbon Pricing in North America

Putting a price on carbon helps to reduce GHG emissions, limits the costs and impacts associated with climate change and will result in long term benefits to the economy. B.C. supports strong international and federal action on climate change and would prefer a comprehensive national and/or North American approach to carbon pricing policy. However, B.C. is committed to taking proactive measures now to minimize impacts from climate change and realize the long term economic benefits associated with limiting carbon emissions in light of obstacles at the federal or international levels.

In June 2009, the US House of Representatives passed a comprehensive climate and energy bill (known as Waxman Markey). Since then however, global economic conditions have worsened and the US Senate has been unable to pass any of the half dozen proposals introduced.

²⁵ The proposed regulation is designed to develop offsets for mandatory emission reduction markets and will not include any requirements directly relevant to entities seeking to offset their emissions voluntarily. However, entities wishing to purchase ERUs for voluntary reduction purposes will be able to do so.

The Canadian federal government has announced its intention to harmonize climate policy development with the United States, Canada's largest trading partner. In keeping with this intention, B.C. has taken steps to ensure harmonization with any potential Canadian system. British Columbia and Canada signed an Agreement in Principle (AIP) on April 6, 2010 to coordinate efforts and ensure a coherent approach to climate change that does not place an unnecessary regulatory burden on industry. The AIP is the first step towards a formal Equivalency Agreement under the *Canadian Environmental Protection Act*, 1999. An Equivalency Agreement would avoid duplication of regulatory measures and ensure that the environmental needs of the Province are met. The first deliverable under the agreement is a "one-window reporting system" for facilities located in British Columbia required to report GHG emissions under both provincial and federal regulations. The one-window system would limit administrative burden and duplication of reporting effort.

Provincial and state jurisdictions in Canada and the United States have longstanding independent roles and legal authority to address environmental concerns. By demonstrating leadership on this important issue, B.C. and WCI partner jurisdictions hope to increase momentum for action on climate change at the federal level – while also taking advantage of the economic opportunities that are available in transitioning to a low-carbon economy and growing clean technology sectors to provide new jobs and services. The WCI design has already influenced proposals in the US and will likely influence a future federal design.

WCI partners are positioned to act as leaders in an emerging low-carbon national and global economy. The experience gained by the WCI Partners through their efforts will greatly inform their role in any future national program.

5. Next Steps – Climate Action Secretariat

The Climate Action Secretariat of the Ministry of Environment is currently:

- ◆ Developing the overall B.C. emissions cap for regulated operations in the form of a nine year "allowance forecast" and a three year "allowance budget" to be integrated into the WCI;
- ◆ Developing the annual allowance distribution plan;
- ◆ Developing an allowance auction process;
- ◆ Identifying the requirements of the compliance unit tracking system (registry);
- ◆ Ensuring appropriate regulatory oversight and transparency of activity in the emission markets and other relevant markets of capped emitters;
- ◆ Seeking comments from stakeholders, First Nations and the general public on the proposed Emissions Trading and Offsets Regulations;
- ◆ Stipulating the compliance provisions under the *Cap and Trade Act*;
- ◆ Developing process maps to clearly identify roles and steps in the emissions trading system; and
- ◆ Integrating the emissions trading system with the carbon tax.