

Good Management practices



Greenhouse Gases and the Canadian Beef Cattle Industry

CARBON Trading Credits

The Kyoto Protocol includes Emission Reduction Credit (ERC) trading within countries and internationally as a way to meet carbon emission targets in a cost effective way.

One approach to ERC trading that is emerging in Canada's national plan for emission reductions is to place a limit on emissions from sectors such as oil and gas, electricity, mining, and chemical production, which are referred to as large emitters. Companies within these sectors will be required to hold permits for each unit of Greenhouse Gas (GHG) emissions that they send to the atmosphere. Those companies which are able to cut their emissions at a relatively low cost will have the financial incentive to make larger reductions and to sell the surplus permits or credits to other companies who face higher costs to reduce their own emissions. The companies which buy credits to reduce their own emissions can save money by buying credits instead of reducing their own emissions by as much. The Canadian trading system will also allow those sectors not covered by a cap on emissions, such as agriculture, forestry and waste management to generate credits by reducing their emissions and then selling the credits to those covered by the cap.

The Canadian beef industry could be a seller or a purchaser of ERCs depending on the regulatory regime developed in Canada. The current national plan for

emission reductions leans toward the beef industry as sellers of ERCs. Many of the methods which are suggested to reduce greenhouse gases are also those which improve the efficiency of beef production (such as improved feed conversion, manure management, grazing management). These methods have the potential to reduce costs, improve net revenue from the sale of beef and incrementally to add revenue from the sale of ERCs.

If beef producers decide to create and sell ERCs there are a number of considerations of which they should be aware. These include:

- **Type and time frame of sale** The buyer could offer to buy today's ERCs or buy an option on future ERCs the seller will produce or some combination of the two.
- **Source of ERCs** The buyer may only be interested in ERCs from certain sources and not others (for example a buyer may be interested in ERCs from improved manure management and not from soil carbon sinks).



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- **Certification of ERC validity**

The seller will most likely require that the ERCs be independently verified to ensure they are real emission reductions. This may include a clear definition of the change in operation that has resulted in the emission reduction.

- **Permanence of credits**

There is concern that carbon sink credits may not be permanent and that a seller may be liable if he or she sells sink related credits without a time limit.

The liability would arise if carbon was removed from the soil at a later date if the producer were to revert to significant cultivation, break grasslands to grow annual crops or remove shelterbelts or other permanent vegetation. Ways to deal with this risk are to “lease” the credits to a purchasing company or to sell for a clearly defined period of time after which the purchaser is liable for replacing the credits from other sources or by renewing the contract with the

producer. In this way the risk is not transferred from the buyer to the seller.

- **Credits net of whole farm or from individual changes in management**

It is not clear at this time whether ERCs will be determined from emission reductions arising from individual methods used on the farm or net emission reductions arising from all activities on the farm.

- **Future domestic and international GHG policy changes**

One concern for both ERC buyers and sellers is the threat of changes to regulations in the future. At the moment it appears that agriculture will not have regulations requiring the industry to reduce emissions.