



Ontario Federation of Agriculture

Ontario AgriCentre

100 Stone Road West, Suite 206, Guelph, Ontario N1G 5L3
Tel: (519) 821-8883 • Fax: (519) 821-8810 • www.ofa.on.ca

December 16, 2015

Melissa Ollevier, Senior Policy Advisor
Ministry of the Environment and Climate Change
Climate Change and Environmental Policy Division
Air Policy Instruments and Programs Design Branch
77 Wellesley Street West, Floor 10, Ferguson Block
Toronto, Ontario
M7A 2T5

Dear Ms. Ollevier,

RE: Cap and Trade Program Design Options

The Ontario Federation of Agriculture (OFA) is pleased to provide our comments Cap and Trade Program Design Options to the Ministry of Environment and Climate Change (MOECC). As a key sector of Ontario's economy that has the great potential to provide solutions to Climate Change and Greenhouse Gas mitigation, we remain keenly interested in this issue as the Ontario Government proceeds with the next steps in putting a price on carbon.

OFA is the largest general farm organization in Ontario, representing over 37,000 farm families across the province. As a dynamic farmer-led organization based in Guelph, the OFA works to represent and champion the interests of Ontario farmers through government relations, farm policy recommendations, lobby efforts, community representation, media relations and more. The OFA is the leading advocate for Ontario's farmers and is Ontario's voice of the farmer.

7. Linking with Quebec and California

OFA acknowledges that climate change is happening here and now as a result of a rise in global temperatures, and is evidenced by more frequent extreme weather events and patterns. To address this circumstance, we favour the implementation of a Cap and Trade System as a means of placing a price on carbon to facilitate global Greenhouse Gas reductions. In general, we support efforts to harmonize Ontario's proposed Cap and Trade System with those in California and Quebec in order to reduce administrative burden and meet pending timelines.

However, as an unregulated sector in an ideal position to provide *offsets* to the regulated sectors, we believe these two systems are too restrictive in their allowance for agricultural offsets to reduce emissions.

OFA cautions that, in the process of bringing our Greenhouse Gas regulatory framework in line with Quebec and California, we do not outright emulate their systems entirely. We must not ignore the unique challenges and opportunities Ontario has to offer, particularly in the case of agricultural offsets.

In the design of Ontario's Cap and Trade System, we urge the Ministry of Environment and Climate Change to allow for the greatest amount of flexibility for agricultural offsets and to enable and encourage an environment of offset innovation. This will have the benefit of providing opportunities for Greenhouse Gas emitters to bring their operations into compliance with the least disruptive impact to their business and our economy; provide the financial assistance to the agricultural sector to further implement and intensify the use of beneficial, emission-reducing management practices; and allow the Government of Ontario to continue to push towards their policy objectives with respect to Climate Change and Greenhouse Gas emissions reductions.

Evidence from California and Quebec is clear - when the rules for offset creation are written too stringently and with little regard for the realities of agricultural production, the development of biological Greenhouse Gas mitigation projects does not occur. This removes the potential of a significant opportunity to sequester or destroy millions of tons of CO₂e and does not further the goal of Greenhouse Gas reduction.

The OFA believes that we need an offset system that works for Ontario, and one that works for Ontario's offset credit creators. Copying California's system for offsets will not achieve this outcome.

11. Market Design Features

It is vital to develop a market framework that will allow offsets to be generated in a cost-effective manner. Quite simply, an offset market will not flourish if development costs are too high or opportunity too limited. Protocols need to be economically viable and environmentally credible, verification and registry costs must be reasonable, and aggregated project development must be allowed in order to increase the number of participants in the market.

Ontario's offset system must be designed and implemented in such a way as to ensure the integrity of the GHG removals, reductions or avoidances. Failure to ensure integrity may undermine the objective of reducing greenhouse gases and preclude important political acceptability of the system. Failure to ensure the integrity may prevent acceptance of offsets by external markets including those with which the regulatory body may be trying to establish linkages.

Ontario's farmers are willing to rise to the challenge to produce credible and verifiable offsets for the regulated sectors and contribute to Greenhouse Gas mitigation.

13. Mitigating Carbon Leakage

Carbon Leakage in the Agricultural Sector

At its core, farming involves the management of biological processes and living organisms that are more often than not subject to the vagaries of climatic and environmental conditions. Farming attempts to control the growth of plants and animals under conditions that are rarely under farmers' control.

Ontario farms produce hundreds of different kinds of agricultural products. For the majority of these, we compete in a global marketplace – meaning, we must compete against products from other countries that do not necessarily operate under the same high standard of environmental and socially responsible legislation that we have here in Ontario. Our agricultural producers have little to no ability to influence the world price. They receive the price the market is willing to pay. Ontario farmers are price takers, not price setters.

The Ontario Cap and Trade System could result in higher costs for a variety of agricultural inputs such as energy, fuel and fertilizer. From the perspective of the agriculture sector, when costs of agricultural inputs increase by way of legislative actions, the result is a unilateral increase in our domestic cost of production for which there is no mechanism to recoup that cost from the marketplace.

Energy intensity and trade exposure are variable among Ontario's agricultural commodities. **Nonetheless, in the interests of maintaining food security and stable agri-food systems, we believe that considerations must be made under Ontario's Cap and Trade System for the potential increased cost of production to our agricultural sector, for which there is no mechanism to transfer that cost to buyers.**

Carbon Leakage in Offsets

Leakage occurs when production shifts to a jurisdiction with a less stringent carbon pricing policy. It is an important concept in ensuring a real and permanent reduction and must be assessed during protocol development. Offset protocols must evaluate functional equivalence for each project. It is a means of addressing activity-shifting and market leakage by ensuring functional equivalence has been maintained within projects. The regulator should require that offset protocols include methods for leakage assessment.

We recommend a quantitative assessment of leakage be performed whenever possible. When a quantitative assessment is not feasible, a qualitative risk assessment will determine whether the risk of systematic leakage is significant or not. If leakage is found to be above the threshold, the quantification methodologies can include a factor to account for leakage.

To address activity-shifting and market leakage, WCI requires assessments of whether functional equivalence has been maintained within projects and require that protocols include methods for leakage assessments. WCI offset protocols follow the ISO 14064:2 approach of evaluating functional equivalence for each project. WCI offset protocols will also require an assessment of potential leakage associated with each project type.

We recommend the following as methods to review leakage risk:

- A quantitative assessment of leakage will be performed whenever possible.
- When a quantitative assessment is not feasible, a qualitative risk assessment will determine whether the risk of systematic leakage is significant or not.
- Offset protocols will include a threshold to identify significant leakage. If leakage is found to be above the threshold, the offset protocol quantification methodology should include a factor to account for leakage.

13 c. Use of Offset Credits

The use of offset credits in the Ontario Cap and Trade System is a good option. While we recognize that the province would like to see the majority of emissions reductions come from within the regulated sector (shifting of allowances and industry innovation), offsets from the unregulated sector can provide significant reductions in atmospheric Greenhouse Gases that may not be otherwise feasible. Biological Greenhouse Gas reductions generated through agricultural offset projects often bring additional co-benefits to ecosystem health and functioning. When incorporated into a Cap and Trade System they are a win-win policy option.

An offset credit is generated by unregulated actions which result in emission reductions that go beyond what would have happened in the absence of the project. With appropriate rules and guidelines, offsets are a low cost method of making a meaningful contribution towards reducing global emissions. In order for an emissions reduction to be recognized as an offset credit, the reductions are subject to a number of eligibility criteria which not only ensure the integrity of the reductions, but also define the conditions under which these reductions may be considered an offset which can be applied towards regulatory compliance. These criteria set the foundation for market design.

While OFA accepts linking with Quebec and California to reduce administrative burden and to expedite the process, we are not satisfied with the scope and range of offset opportunities and flexibility in design available to offset creators under those two systems. We are encouraged by the fact that the MOECC has issued a Request for Bids to investigate the adaptation of 13 existing protocols to the Ontario context, and that the proposed option for Ontario is to allow for the aggregation of smaller offset projects into a marketable product. **However, we strongly recommend that the offset credit system for Ontario's must be developed with the greatest opportunity for Ontario's agricultural sector to participate in developing projects and reducing Greenhouse Gases.**

We agree that emission reductions achieved by an offset project must be quantified using an Ontario-approved offset protocol and meet the criteria of being real, additional, verifiable, validated, enforceable and permanent. We understand these criteria to mean:

- Offsets must represent real emission reductions or removals and must be quantified using accurate and conservative methodologies that appropriately account for all relevant greenhouse gas sources and sinks and leakage risks.
- Offsets must represent emission reductions that are in addition to what would have occurred otherwise and must be beyond business-as-usual (BAU). Further, the reductions must not be required by law or come from actions covered by cap and trade regulations.
- Verifiable means that a GHG reduction or removal, or assertion thereof, is well documented and transparent such that it lends itself to an objective review by a qualified verifier. Third party verification is a vital step in providing certainty of the validity of the offset. All reductions and removals must be supported by sufficient and appropriate evidence that demonstrate the reduction or removal occurred.
- Quantification methodologies for GHG emissions or emission reductions must be appropriate to the GHG source or sink and current at the time of quantification as well as consider local conditions and account for uncertainty.
- Offset ownership must be undisputed and enforcement mechanisms exist to ensure that all program rules are followed and the program's integrity is maintained.

- Offsets must represent emission reductions that are non-reversible or ‘permanent’. In theory, permanence means that if reductions or removals are reversible (i.e. in the case of bio-sequestration), WCI guidelines and policies state the permanence period is 100 years, meaning that the carbon must be sequestered for that time period. In practice, permanence refers to the risk that a carbon removal is reversed at a later date (in part or in full). As a result, offset projects that are based on the biological sequestration of CO₂ require safeguards to prevent or compensate for intentional (e.g. harvesting of trees in a reforestation project) or unintentional (e.g. a forest fire in a reforestation project) reversals that may result in the release of previously sequestered CO₂ back into the atmosphere. Various reversal and replacement mechanisms have been developed to address this risk.

Protocols are only as good as the protocol review process. We know that there are multiple ways to satisfy the criteria, and yet create offset projects in which farmers will actually participate.

A robust and transparent protocol review process is key to ensuring protocols will meet the regulatory requirements. The protocol development and review process may include a number of features designed to ensure a high degree of integrity is maintained including expert and market engagement, defensible scientific and technical methodologies and best practice guidance, a rigorous peer review process and documented transparency in development stages and final decision making on the part of the regulator.

Uncertainty and accuracy are key principles in protocol development. Quantification methodologies and measurement techniques set the standard for acceptable statistical precision and they must be based on the best available science. Protocols must also reduce bias and promote conservative estimates. When dealing with uncertainty it is necessary to apply the principle of conservativeness which means when uncertainties are above a defined threshold, offset quantification methods should use more conservative quantification parameters, assumptions, and measurement techniques to minimize the risk of overestimating emission reductions and removals. These principles should be employed when significant uncertainties arise to ensure a higher level of confidence that all calculated reductions are real. In general, protocols are built upon similar core principles, including relevance, completeness, consistency, accuracy, transparency; and conservativeness, as outlined in the ISO 10064:2 process based standard. Biological Greenhouse Gas reduction protocols from the agricultural sector must:

- Be scientifically sound
- Be economically viable
- Support aggregation
- Be prescriptive yet flexible
- Be focused on monitoring and measuring the activities that result in emission reductions.
- Be rooted in the reality of on farm emission reductions.
- Developed by people that understand agricultural offsets

A number of factors should be addressed in defining a protocol development, approval, and revision process:

- *Government Coordination:* The regulator may choose to coordinate protocol development from within Government or open the process to the private sector to create protocols.

- *Review Process Coordination:* The review process may be coordinated by the regulator or alternatively may be outsourced to a designated entity that is neutral in the marketplace.
- *Clearly defined timelines:* Timelines of protocol development must be clearly established and communicated. Protocol development times must clearly outline dates which protocol documentation must be submitted, technical reviews/public consultations are to be conducted, and when responses from the regulator can be anticipated. Timelines should be established which ensure an adequate period for development and review and regulators need to ensure necessary resources are addressed. Final approval of protocols by the Government requires discretion with respect to time, particularly if there are outstanding policy issues that need clarification. Where ever possible, it is important to establish and ensure timelines are met.

Lack of a timely process has been a large criticism of many offset systems. The protocol development process is lengthy and expensive, it is important to give protocol developers confidence in the development process so that they can invest time and money with a degree of certainty.

- *Effective technical review process:* Technical reviews are important to ensure industry experts are consulted on protocol scope, applicability, relevance, robustness and conservativeness.
- *Effective stakeholder review process:* Having the broader set of market stakeholders review the technically reviewed document is important. It's important to ensure the verifier community, project developer community, and potential purchasers as well as other technical experts can understand and apply the protocol.
- *Public review process:* Most governments have public review periods for regulatory documents although it can be a challenge to engage the public. Building stakeholder mailing lists and using web-based meetings has been the preferred method with periodic mail outs reminding the public that the document is posted and to review the materials.

In order to encourage expert participation, a number of options may be exercised including: awarding compensation for the time and resources provided by technical experts; and, as exemplified by the Clean Development Mechanism (CDM) development process, a rotating methodology panel. A *methodology panel* would include those persons with a good understanding of the protocol development process, various technologies and related markets, and may be established to ensure persons are always available for the timely review of proposed protocols. Using web-based tools like webinars, wiki sites and online collaboration tools are other mechanisms to facilitate broad scale participation.

- *Continuous participation by the regulatory agency:* In order to ensure a streamlined offset quantification protocol development process, it may be necessary that representatives of the regulatory agency are aware and actively participating in the development and technical review of quantification protocols. Active participation will ensure the regulatory agency is aware of decisions made by the protocol developers and may facilitate opportunities for the agency to provide feedback along the development process, thereby streamlining the development process.

- *The establishment of an official, formal revision process and timeline:* Offset quantification protocols are organic, continuously evolving documents which may require frequent adjustments and revisions as the protocol is applied and project specific scenarios are unveiled. As such, protocols which are written as static regulatory documents may inhibit potential projects from being able to quantify emissions reductions, particularly under time-sensitive conditions. A formal timely review process may prove to be beneficial for long term protocol and project development. Particular project types may be impacted by changing market and regulatory conditions, and as such, periodic review processes may be established to ensure protocols continue to remain true to the key principles of the offset system and eligibility conditions.
- *Documented Transparency:* Transparency in the review process, who was engaged and the decisions made by the protocol committees and regulator, is critical to public acceptance and credibility of the Offset protocols. It also enables clear decision-making on the part of the regulator, and minimizes claims of favouritism or industry pressure.

Greenhouse Gas offset quantification protocols provide specific guidance on defining the baseline and project scenarios for an offset project in addition to illustrating the scope of quantification, data management and collection procedures, among other points of instruction. It is against an offset quantification protocol that assertions of emissions reductions are verified and as such must be developed under strict standards. Given the central role quantification protocols play in the generation of offsets, the multiple standards, formats and quantification approaches which may be adopted in establishing these documents requires consideration.

14. Recognizing Early Reductions

Our comments regarding recognizing early reductions centre on rewarding the farmers who have previously adopted emissions reducing practices that qualify as offset credits in other Cap and Trade Systems.

The start date and the crediting period must be justified and sufficient justification should be provided to ensure the integrity of the offset system and the emissions cap. Identification of a start date must take into account other significant factors such as:

- previous announcements from government of plans to put a price on carbon, and implement an offset system; and/or
- Intention to reward early adopters.

Ontario has announced a start date of January 1, 2017 for the carbon pricing mechanism. Start dates will affect the ability of parties to participate in the market. Protocol specific adjusted baselines can mitigate the risk of early adopters from being excluded from the market. It is important to note that penalizing early adopters by failing to recognize the emission reductions farmers have achieved can result in perverse actions.

The use of an adjusted or normalized baseline approach takes into account the current practice levels of a particular project. Based on the practice level, the baseline scenario is “adjusted” or “normalized” to reflect the current level of practice so that emissions reductions which go above and beyond the practice level, or are surplus to the business as usual scenario, can be quantified. For example, an adjusted baseline can be applied to quantify emissions reduction

from no-till and reduced-till projects. In this case, the adjusted baseline is applied to all tillage management projects to adjust for the existing level of the various practices.

For example, Alberta's Conservation Cropping Protocol's baseline is developed using sector level performance in 2011 census data and known levels of adoption of reduced and no till agriculture practices. This approach allows all farm operators practicing conservation tillage farming to participate irrespective of the adoption date of the practice change. It does this by assuming all carbon stored prior to 2001 is discounted from 2011 levels and only the new, incrementally stored carbon is eligible for offset credits. This approach means that as adoption levels rise, the potential for new carbon sequestration is reduced and the associated emission reduction coefficient and resulting offset credit opportunities are also reduced.

We recommend adjusted baselines be used, where practicable, to enable broader participation and maintain the emission reduction activities being done early adopters.

15. Compliance Requirements

We understand that consistent with WCI design recommendations, only 8% of an entity's total compliance obligations can be accounted for through offset credits. We expect that the demand for offset credits will increase as the caps on industry are lowered and the price of carbon increases. As we have stated earlier, biological offset credits from the agricultural sector can provide multiple co-benefits by incentivising best practices, reducing Greenhouse Gas emissions, while generating greater ecosystem health and functioning. Capping industry's compliance obligations at 8% will only serve to stifle innovation and opportunities. **OFA believes it is essential that the Cap and Trade System in Ontario be designed with the flexibility to allow the regulated sectors to use a greater percentage of offset credits for compliance as their emission caps are lowered over time.**

OFA appreciates the opportunity to comment on the proposed design options for Ontario's Cap and Trade System. We recognize there is a need to take action against Climate Change and that a market mechanism to regulate further emissions is an appropriate response. We believe a Cap and Trade System that allows for considerable offsets to come from the agricultural sector is the best way to achieve the Provincial goals to reduce Greenhouse Gases.

We look forward to continuing to work with the Ministry of Environment and Climate Change to further develop the design of an offset credit system that allows for the greatest participation for Ontario farmers and the greatest amount of Greenhouse Gas reductions.

Sincerely,



Don McCabe
President