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Environment and Climate Change Canada

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RE: Carbon Pollution Pricing: Options for a Federal GHG Offset System

The Ontario Federation of Agriculture (OFA) is pleased to provide comments on Environment and Climate Change Canada's (ECCC) discussion paper, *Carbon Pollution Pricing: Options for a Federal GHG Offset System*. The OFA is Canada's largest voluntary general farm organization, representing over 38,000 farm families across the province. These farm businesses form the backbone of a robust food system; helping to drive the Ontario economy forward.

We are pleased that the federal government is moving forward with the development of an offsets system as a compliance option for industries covered by the Output-Based Pricing System (OBPS). An emissions pricing system which includes the use of carbon offset credits will provide regulated facilities with flexibility in meeting compliance with greenhouse gas (GHG) regulations while allowing non-regulated sectors to pursue opportunities to reduce their emissions. OFA is confident that offset credits can provide a necessary bridge for industry to make a cost-effective transition to cleaner activities while incenting other unregulated industries to develop through carbon revenues.

The agricultural community has the potential to be an important contributor to addressing climate change. However to do so, the system needs to be designed in such a way as to enable broad participation. Furthermore, as representatives of the largest group of private landowners in the province, with a great potential to provide offsets to regulated sectors, we expect continued involvement by the OFA and the agricultural sector in the development of this system to ensure that it aligns with the needs and priorities of our members while achieving GHG reductions.

Offsets credits from the agricultural sector will take some time to plan, develop, execute, and verify. Realistic timelines are required for this to happen. We recommend that the ECCC engage in considerable outreach and extension to help prepare potential offset creators to deliver credits to the market. Without this assistance, many farmers may not be able to fully participate in the offset credit system until well into the future.

Federal GHG Offset System Design Considerations

We agree with the ECCC that the Federal GHG Offsets System be must administratively simple to allow offsets to be generated in a cost-effective manner that minimizes the burden for participants. Quite simply, an offsets market will not flourish if development costs are too high or opportunity too limited. Protocols need to be economically viable, environmentally credible, with reasonable verification and registry costs in order to increase the number of participants in the market. A complex or onerous verification process can curtail the development process, effectively preventing widespread participation by farmers in offset generating projects and

ultimately frustrates progress towards continued environmental quality. An aggregated offset project is a collection of small projects using the same protocol that have been grouped together to reduce transaction costs and achieve economies of scale for marketing, verification and registration purposes.

We further agree with the ECCC that the offsets system should have a Canada-wide application that supports credit creation in all provinces and territories. Considering neither a compliance-based or voluntary offsets programs was developed in Ontario, OFA appreciates that the proposed federal system will focus on offset project development in provinces and territories without existing systems.

Proposed Key Elements of the Federal GHG Offset System

OFA supports the issuance of offset credits for project activities that represent real, quantified, additional, verifiable, permanent, and unique GHG reductions. However, we believe that within the agricultural context and the generation of farm-based offsets, these terms often require different definitions or perspectives when compared to offsetting activities from other sectors.

Scope

Project start dates will affect the ability of parties to participate in the market. OFA is disappointed to see that the proposed system will only allow for crediting of offset initiatives that began on or after January 1, 2017. The agricultural sector has a long history of seeking innovations and efficiencies in food production, many of which have a GHG emissions reduction co-benefit. We insist that ECCC consider credit for early action when developing the offset system.

Ontario's farmers, as well as many companies along the agri-food market chain, have always been leaders in seeking out and implementing new technologies and techniques that create efficiencies on the farm. Many of these serve to reduce input costs in agricultural production, but also come with the added benefit of reducing greenhouse gas emissions and reducing our overall impact on the environment. Penalizing adopters of emissions reducing technologies and techniques by failing to recognize the emission reductions from their early actions can act, in certain situations, as a perverse incentive towards reversal.

Under **Project Registration** on page 6 of the Discussion Paper, ECCC states, “Only reductions that occurred after the federal offset system is in place will be eligible to generate Offset Credits” yet the Paper indicates an offset project start date of January 1, 2017. We find this to be a confusing and unacceptable statement that requires clarification from ECCC.

We remain optimistic and that the offset protocols will be flexible enough to accept early actions from the agricultural sector while remaining true to the proposed criteria.

Additional

In quantifying emissions reductions, the baseline condition defines a reasonable representation of conditions that would likely have occurred in the absence of the proposed project. In other words, the baseline represents “business as usual” and the project represents a change from this practice. In order to determine if something is additional, it is necessary to determine what would happen in the absence of the project – the project baseline or business-as-usual. Again, we believe in the agricultural context, “business-as-usual” often requires a different approach. Variability and uncertainty in climate, weather, international markets, and global politics all

conspire to create a very different context for what is considered business-as-usual for the agricultural sector.

Adjusted and normalized baseline approaches are an important tool in recognizing activities which may be subject to eligibility constraints to ensure the environmental integrity of emissions reductions from these projects is maintained. 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 baseline was 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.

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

Federal Offset Protocol Development

OFA appreciates efforts to minimize cost and accelerate protocol development by evaluating the potential to adapt offset protocols from existing provincial and territorial offset systems for use across Canada. OFA welcomes the opportunity to participate on any ad hoc Technical Advisory Team created to inform the development of Federal Offset Protocols. A robust and transparent protocol review process involving all relevant stakeholders is key to ensuring protocols meet the requirements and have broad participation by offset creators.

In reviewing the criteria presented in the Discussion Paper, we recognize the burden must be high to ensure rigour in offset generation and confidence within the offset market. However, for farm-based offset creators to participate meaningfully, the offset system must recognize the need for offsets and protocols to be:

- Economically viable
- Support aggregation
- Prescriptive yet flexible
- Focused on monitoring and measuring the data/activities that result in an emission reduction
- Rooted in the reality of on farm emission reductions
- Developed by people that understand agricultural offsets

Several factors should be addressed in defining a protocol development, approval, and revision process:

- *Documented Transparency*: documentation of who was engaged and the decisions made by the protocol committees and government 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.

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- *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, 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.
 - *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, 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.

Aggregated Projects

An aggregated offset project is a collection of small projects using the same protocol that have been grouped together to reduce transaction costs and achieve economies of scale for marketing, verification and registration purposes. The agricultural sector is prepared to develop projects from the biological systems we manage to create offsets for the regulated sectors. As the volume of credits from individual projects may be too low to market successfully, we need to aggregate multiple projects to achieve this goal.

OFA is pleased that ECCC is allowing for the aggregation of emission reduction projects in the offset credit system. There are substantial costs associated with bringing an offset project to market including: validation; registration; and verification – all in addition to project implementation. Aggregation helps overcome this challenge by grouping multiple small and often geographically and temporally dispersed projects together to achieve economies of scale.

Credit Ownership

Proving clear title and claim to carbon offsets is necessary but not always easily achieved. Aggregated projects where many players can be involved – the project developer, the aggregator, the landowner (which may be the government in the case of public lands) and the land manager (lessee) are even more complex. Sequestration projects involving soil or forest carbon can introduce additional risks since the liability for maintaining the carbon in the sink for the specified permanence period must be accountable by someone.

The circumstances under which ownership can become unclear or contested include:

- An offset project that is operating on public land;
- A project that is implemented on leased land by a lessee and not the landowner;

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- A technology service provider that is installing a unit that results in emission reductions (i.e.: energy efficiency gains from the installation of digital thermostats); and/or,
 - Multiple, unrelated entities that are involved in the lifecycle of the project (e.g. biomass energy generation from the combustion of residues from forest industry activities)

OFA recommends that the ECCC provides a comprehensive, plain language guidance document outlining issues around credit ownership, including explanation of the common types of contractual arrangements that may be offered by offset initiative sponsors and aggregators.

Offset Credits and Credit Stacking Considerations

OFA is pleased to see the potential for credit stacking opportunities exists for the federal offset credit system. We believe that agricultural activities make the best use of arable land, and that agriculturally managed landscapes provide environmental and ecological services (EG&S) in the process of normal farm practices to produce food, fibre and fuel. Furthermore, agricultural activities have the capacity to protect and enhance some EG&S through the adoption of beneficial management practices.

As managers of biological systems, and carbon, nitrogen and water cycles, OFA believes that the EG&S that farmers provide in the process of growing food should be recognised and incentivised as a *public good* that benefits the province and planet. OFA has long advocated that farmers should be recognised for the EG&S they provide when growing food for Ontario, and they should be incentivised to further develop and enhance these efforts.

OFA appreciates the opportunity to comment on the proposed design options for a federal GHG offset system. We look forward to working with the ECCC to further develop the design of an offset credit system that allows for the greatest participation for Ontario farmers and the greatest amount of GHG reductions.

Sincerely,



Keith Currie
President

cc: Mary Robinson, President, Canadian Federation of Agriculture
OFA Board of Directors