CANADIAN CANOLA GROWERS ASSOCIATION

**Helping Farmers Succeed**

May 5, 2021

Ms. Jackie Mercer
Manager, Offsets and Emissions Trading Section, Carbon Markets Bureau
Environment and Climate Change Canada
351 Boul. Saint-Joseph
Gatineau, QC, K1A 0H3

ec.creditscompensatoires-offsets.ec@canada.ca

Re: *Proposed Regulations, (2021) C Gaz I, 966 (*Greenhouse Gas Offset Credit System Regulations (Canada)*)*

Dear Ms. Mercer,

Canadian Canola Growers Association (CCGA) has been actively following the federal government's proposed carbon pricing policy framework and appreciates the opportunity to comment on the government's proposed *Greenhouse Gas Offset Credit System Regulations (Canada) (*the *Regulations)*. CCGA represents 43,000 canola farmers across Canada on national and international issues, policies, and programs that impact farm profitability.

Developed in the 1970s by researchers at the University of Manitoba and Agriculture and Agri-Food Canada (AAFC), canola is a staple of Canadian agriculture as well as Canadian science and innovation. Today canola has become Canada's most widely seeded crop, planted on over a fifth of all Canadian cropland. In Canada, canola generates the largest farm cash receipts of any agricultural commodity, earning Canadian farmers over $10.2 billion in 2020.

Each year over 90% of canola production is exported worldwide as seed, oil, or meal. Canada's 43,000 canola farmers compete in the global marketplace, making them dependent upon global market prices. The introduction of a carbon pricing mechanism that could threaten the competitiveness of Canada's 43,000 canola growers could also negatively impact the 207,000 jobs[1] and $29.9 billion[2] the canola industry contributes to Canada's economy every year. The Agri-Food Economic Strategy Table has a stated goal that Canada's agriculture industry should reach $85 billion in agri-food exports by 2025. To meet this goal, a level playing field with global competitors is needed.

Canola farmers are committed to a sustainable future and have established goals to support that commitment. By 2025, they will reduce their fuel usage by 18% per bushel, increase land use efficiency by 40% per bushel, sequester an additional 5 million tonnes of CO2e, use 4R nutrient stewardship practices on 90% of canola

---

[1] LMC International Ltd, The Economic Impact of Canola on the Canadian Economy: 2020 Update, for the Canola Council of Canada (Oxford: 2020) at 2 online: <https://www.canolacouncil.org/download/131/economic-impact/17818/economic-impact-report-canada_december-2020>
[2] *Ibid*

production acres, and continue to safeguard the more than 2,000 beneficial insects that call canola fields and surrounding habitat home.

Having sequestered millions of tonnes of carbon, it is important to recognize the contribution of Canadian farmers in meeting Canada's climate change goals and provide them with a meaningful path to participate in the output-based pricing system (OBPS). Farmers have an inelastic demand curve for carbon-based inputs.

Ensuring access to a variety of offset protocols that are transparent and relevant will benefit both farmers and the environment. Offsets need to be clear, practical and accessible. To avoid carbon leakage, where revenues are to be returned to industry, effective carbon pricing policy should ensure that revenues are returned to the sector from which they are collected. When considering the implementation of such a policy, we would recommend providing an exemption from all aspects of the price on carbon as it relates to primary agricultural production in Canada.

With our application to Environment and Climate Change Canada's (ECCC) roster of technical experts, our organization looks forward to a more formalized engagement process as the development of specific offset protocols moves forward.

CCGA appreciates the ongoing engagement provided for by ECCC. We would like to provide our comments on the proposed *Regulations* as well as re-iterate and expand on several points we have previously made to your Department in other consultations and meetings.

*1.0 The Proposed Regulations*

Our organization is pleased to be commenting on the proposed *Regulations*. In the last 18 months a number of significant voluntary offset projects have been undertaken in both the US and Canada. While CCGA appreciates the work that has gone into the current consultation, as well as the entire regulated offset market development process, we are very concerned that opportunities for a liquid regulated offset market are diminishing with every year. In order to achieve maximum economic efficiency in the regulated offset market, for both obligated parties, offset proponents, and project participants, the regulated market must be developed as soon as possible.

The longer that Canadian farmers are left without a meaningful path to participate in the regulated market, it is increasingly likely that they will seek out voluntary market opportunities. We urge you to prioritize the development and implementation of an agricultural soil organic carbon offset protocol as well as a fertilizer emissions reduction protocol based on 4R nutrient stewardship practices. Furthermore, CCGA would ask that in considering baselines and their role in additionality, that ECCC consider a more historic baseline for soil sequestration offsets in Agriculture, earlier than 2017. These considerations will provide further liquidity in the regulated offset market, reduce compliance costs for obligated parties, decrease regulatory burden on government, and provide meaningful opportunities for Canadian farmers to participate in the OBPS. Putting aside market considerations, CCGA has specific comments regarding the text of the proposed *Regulations.*

*1.1 Eligibility Criteria at ss. 4(1)(a) and (b)*

In order to provide the regulated market with as much liquidity as possible and reduce compliance costs for all parties, we would recommend fixing the baselines for sequestration offsets at 2017, instead of the rolling

baselines proposed in ss 4(1)(a)(i),(ii) of the *Regulations*. As it currently stands, OBPS participants will not be able to trade the significant amounts of carbon that have been stored in Canada's agricultural soils for decades. Applying these rolling baselines will compound the exclusion of obligated parties, offset proponents, and project participants in the regulated offset market.

While our organization can appreciate the government's desire to meet its climate change goals in as few months as possible, we believe it is important to balance this consideration with meaningful market development, allowing for a plurality of market participation from across Canada. Ultimately, the 18-month conditions outlined in ss 4(1)(a) and (b) will greatly reduce the number of offset projects developed for the regulated market. If the goal of the *Regulations* is to ensure that CO2e reductions are available to meet compliance obligations for regulated parties in under the OBPS, these 18-month restrictions should be removed. Additionally, excluding otherwise eligible activities based on tight timelines could have the unintended consequence of actually reversing carbon sinks, in an effort to adjust baselines to conform with shifting policy timelines.

CCGA would recommend including language in the proposed *Regulations* that will help ensure against emissions reduction arbitrage. While it has not been a predominant feature of regulated markets, it would be best to prevent situations where emissions reductions are purchased from offset project participants at a specific price, and then re-sold at higher prices once projects have been registered.

*1.2 Crediting Periods, Duration at s 7(1)(ii)*
It is accepted that the global warming potential of greenhouse gases is at issue for 100 years. This science is what understandably informs the 100-year permanence requirement for sequestration offset protocols and projects. However, to ensure that unintentional reversals do not take place, we would recommend the confirmation that crediting periods could be extended to 100 years for non-forestry related sequestration projects. In addition to this, we would propose that language be crafted to allow project developers and participants flexibility in determining the crediting period for each specific project. Providing this flexibility in the regulations will provide sufficient insurance against the unlikely possibility of unintentional reversals.

*1.3 Monitoring Reports, Risk Management Plan Implementation at ss 27(2) and 28*
In order to streamline reporting processes and reduce compliance burdens we would recommend that when considering monitoring reports for sequestration projects at s 27(2), that the monitoring report be required to be submitted 100 years after the end of the first credited year of the offset project, instead of 100 years after the end of the crediting period for the project.

Similarly, we would recommend that when considering the implementation of a risk management plan for biological sequestration projects, that the plan be required only until the end of the 100 years after the end of the first credited year of the project, instead of 100 years after the end of the crediting period for the project.

In addition to streamlining requirements for reporting and risk management plans, we would suggest the implementation of a randomized audit process in lieu of requiring site visits for all project participants to further reduce compliance burdens for both of these requirements. Furthermore, allowing for the integration of new technologies into these quality assurance procedures, as they may become available will have a similarly positive effect.

*2.0 Fertilizer Emissions Reduction Protocol – 4R Nutrient Stewardship*
Our organization is committed to Fertilizer Canada's 4R Nutrient Stewardship Practices. The three levels of 4R practices (basic, intermediate, and advanced) each see increasing levels of associated emissions reductions, depending on which level is achieved in-field. The goals of the 4Rs make sense to canola farmers and are readily understood in the context of climate smart agriculture. Furthermore, farmers see economic value in implementing 4R practices on their farms. They are a suite of practices that help reduce fertilizer related costs, while helping drive yield increases. Most importantly, the 4Rs are adoptable at the field level and result in meaningful emissions reductions.

This is why our organization believes a fertilizer emissions reduction protocol adapted from the 4Rs (fertilizer protocol) should be a priority for ECCC as the Department looks to develop offset protocols for agriculture. Canadian farmers want this protocol to be developed. The 4Rs have been vetted in Canada by Canadian industry, academia, and government. Farmers recognize the 4Rs and are implementing its various levels in their day-to-day operations.

Along with Fertilizer Canada, CCGA tracks 4R compliance through a statistically significant survey of canola farmers, every year. That survey showed basic level compliance of 4Rs for canola farmers at 64% in 2019. Certainly, this is above the business-as-usual threshold of 40% assigned by ECCC in this policy development process. However, looking to the intermediate and advanced levels of 4R practices, the same statistically significant survey shows an adoption rate of well below 40%.

Speaking to adoption rates of 4Rs, CCGA would recommend that a fertilizer protocol developed by ECCC be as administratively simple as possible at the field-level. Acknowledging that the Nitrogen Emissions Reduction Protocol (NERP) in Alberta has not seen significant uptake amongst farmers, we are compelled to note that the barriers associated with this issue relate to the administrative complexity associated with the determination of baselines and verification of the NERP practices. Ensuring a fertilizer protocol is as administratively simple as possible will ensure widespread uptake and use of that protocol.

A variety of regulations related to fertilizer use exist at the provincial level across Canada. This patchwork is inconsistent and typically has disparate aims. The single unifying thread in these regulations is that they typically address in some way provincially regulated water quality. While it is true that a certain level of emissions reductions related to fertilizer use may be resulting from these disparate fertilizer related regulations, that is by no means their intent. Referring again to our work associated with the fertilizer use survey, CCGA does not see a correlation between these regulations, the uptake of 4R practices, and any sort of meaningful fertilizer emission reductions.

Our organization believes this present opportunity gives ECCC a chance to build on the current state of the 4Rs in Canada, and use that foundation to create an offset protocol for use in the agricultural industry that is meaningful for farmers, but also relevant, complete, consistent, accurate, transparent, and conservative.

*3.0 Climate Action Reserve's Soil Enrichment Protocol, Version 1.0, September 2020 (SEP)*
Having taken stock of available agricultural soil organic carbon offset protocols, as well as those currently in development, CCGA would ask you to consider adapting the SEP to reflect Canadian agricultural practices and

available data as ECCC moves to develop agricultural soil organic carbon offset protocols (agricultural protocols).

At the outset of the following considerations related to the SEP we would state that it is our understanding that the tillage aspects of the SEP shall not be included in this current policy development exercise and, that it is our strongest recommendation that any components of the SEP related to fertilizer be replaced in Canada with a fertilizer emissions reduction protocol based on Fertilizer Canada's 4R Nutrient Stewardship Practices.

*3.1 The Legal Requirement Test*
The legal requirement test outlined at page 17 of the SEP is unworkable in a Canadian context and will be a barrier to the development of meaningful, complete, consistent, accurate, and transparent agricultural protocols.

The test states that "all projects are subject to a legal requirement test to ensure that the GHG reductions achieved by a project would not otherwise have occurred due to federal, state, or local regulations, or other legally binding mandates." While CCGA can appreciate the intention of this test, and its application in the context of the protocol, when looking to apply this test to Canada, we would recommend amending the text to state "… due to federal, state, or local regulations, or other legally binding mandates intending to reduce emissions or store carbon."

Adopting this similar, yet distinct, language will help ensure that agricultural protocols adapted from the SEP are meaningful, complete, consistent, accurate, and transparent.

*3.2 Dynamic, Matched and Blended Baselines*
CCGA is supportive of dynamic baseline assessments and has been pleased to learn that ECCC considers them in-scope for this current policy initiative. The SEP proposes something more, matched, and blended baselines. We appreciate the accuracy and transparency offered by matched and blended baselines. We would only caution that in seeking to verify a matched or blended baseline, project developers may encounter hesitation on the part of project participants due to overly complex documentation requirements associated with both of these approaches.

We would be happy to discuss possible paths forward that could ensure the integrity of matched or blended baselines, while also making sure agricultural protocols are meaningful for farmers.

*3.3 Leakage from Yield Reduction of Crops*
The policy rationale behind the SEP's proposal to assess carbon leakage from yield reduction of crops outlined at page 60 of the SEP is valid. Holding all other variables constant, an observed decline in crop yield in this context would lead to carbon leakage within a carbon market. However, the idea that farmers would be penalized for a decrease in yield under an agricultural protocol adapted from the SEP is concerning for a number of reasons.

Increased yield is normally the goal of every farmer. Farmers are businesspeople and work persistently to find ways to increase their yields, every year. However, introducing a new market externality by way of a penalty for carbon leakage due to yield reduction of 5% or more within an offset project to this established equilibrium could

result in perverse policy outcomes. Having said that, our organization understands and appreciates the policy rationale behind this proposal.

Because yield can be negatively impacted by a number of factors which do not negatively impact the levels of on-field/above ground organic matter (i.e., yield could drop by 40% due to hail, rendering the crop un-harvestable, resulting in a farmer leaving sections of crop in-field, resulting in reduced yield but not reduced levels of on-field organic matter) we would recommend increasing the threshold for penalty from 5% to 20%. Increasing this threshold will better capture a crop yield reduction which could be more closely associated with reduced levels of above-ground organic matter.

*3.4 Eligibility, Permanence and Tillage*

As previously noted, conservation tillage or zero-tillage practices are not in-scope under this current policy proposal. For that purpose, we have not commented on the aspects of the SEP directly dealing with tillage. However, the SEP is constructed as an interconnected document, with different concepts and formulas feeding into one another. Because of this we are compelled to comment on aspects of the SEP which would penalize carbon emitting tillage practices in Canada, when ECCC does not intend to incentivise carbon sequestering tillage practices.

Specifically, at pages 66, 68 and 69, the SEP outlines the rationale and penalties that would be assigned to various carbon emitting practices. Considering this dichotomy between ECCC's current policy proposal and the SEP, we would ask that these penalties related to tillage not be included in any agricultural protocol implemented in Canada. We would suggest taking any formulation dealing with such a penalty and replacing it with a null value.

*3.5 Modelling Guidance*

The SEP does not mandate the use of any specific model when determining carbon stock changes or emissions from agricultural soils. Instead, at page 71 it outlines the conditions that must be met for a model to be used to estimate such changes or emissions.

On the basis of these conditions, CCGA recommends that ECCC use the Century Model to determine the carbon stock changes or emissions for an agricultural protocol in Canada. We understand the Century Model may not capture all of the practices covered in the SEP. For this reason we recommend its use where appropriate. The Century Model has previously been used by AAFC to model changes and emissions in soil organic carbon in agricultural soils and is well placed to address the specificities of soil organic carbon in Canadian agricultural soils.

*4.0 Conclusion*

Finally, CCGA supports the use of consistent offset protocols across the country as well as cross compliance mechanisms to acquire and trade credits. Consistent offset protocols and cross compliance mechanisms will encourage participation, reduce the cost of compliance, and facilitate transparency in the Canadian offset market.

Thank you for considering this submission. Agriculture and the canola industry in particular is an important contributor to the Canadian economy and steward of the environment. We are committed to working with you to ensure our industry remains competitive while endeavouring to achieve the climate goals set by the government.

Please contact us if you require additional information.

Sincerely,

Original signed by

Rick White
President & CEO
Canadian Canola Growers Association

CC: Judy Meltzer, Director General, Carbon Markets Bureau, Environmental Protection Branch, Environment and Climate Change Canada

Matthew Watkinson, Director, Regulatory Analysis and Valuation Division, Strategic Policy Branch, Environment and Climate Change Canada

Dave Carey, Vice-President, Government and Industry Relations, Canadian Canola Growers Association