



Response to the Offset System for Greenhouse Gases

September 2005

Keystone Agricultural Producers (KAP) appreciates the opportunity to comment on the Offset System for Greenhouse Gases consultation paper and technical briefing. As the primary land owners and managers across much of Canada, farmers have a significant opportunity to sequester greenhouse gases and help the country to meet its commitments under the Kyoto Protocol.

It is critical that the offset system be designed in a way that facilitates farmers' involvement. The process must ensure that the agricultural community can fully participate in a system that is clear, cost-effective, and tailored to meet the unique needs of farming. With this focus, the offsets system will create a framework for a new source of agricultural revenue, encourage producers to continue to enhance environmental stewardship, and ensure that all Canadians can benefit from the environmental practices adopted by the nation's farms.

Ownership of Carbon Offsets

Farmers continue to undertake and improve farm management practices that effectively create carbon offsets. On an annual basis, decisions must be made at the farm level that will determine the future of these offsets. Farmers are responsible for these decisions and are therefore ultimately responsible for all related risks, costs, and benefits.

Clearly, the carbon offset system will create scenarios of risk and cost to the producer, but it can also create benefits. If producers must be responsible for the negative aspects of the system (risks and costs), then they must also be fully able to access the benefits. As such, all carbon offsets created or maintained by the producer must remain under his or her ownership. Though some government programs can provide some level of assistance to create carbon offsets (beneficial management practices, Greencover Canada), KAP believes that the ongoing commitment and responsibility of producers to continue the maintenance of these offsets is sufficient to allow all benefits of ownership to flow to the producer.

As a significant portion of agriculture's offsets will likely be sold as temporary credits (as noted below), this structure is flexible enough to accommodate the transfer of ownership through land sales. For offset credits with liability periods, another agreement must be developed to deal with this event. KAP recommends that a contractual document be made available by government that could be completed and signed by both parties. In this document, the parties

would clearly identify if a percentage of the initial offset payment would be provided to the new owner over an established time period to cover some of the ongoing maintenance costs.

Government could also establish a percentage-based guideline for different types of offsets (riparian or wetlands, for example) based on the number of years since the initial payment and years until the conclusion of the contractual obligations under the offsets system. We do not support a caveat on the land hold. We suggest that, in the event of an ongoing land lease, that the temporary credits be established as renter's rights.

KAP also requests that government consider what impact, if any, carbon offset payments will have for producers participating in the Canadian Agriculture Income Stabilization (CAIS) program, and how this income will be treated for tax purposes. This information must be shared with producers prior to the launch of the program, to ensure that informed decisions can be made. KAP and its member organizations would be willing to consult further with government on this important aspect of the offset system.

Temporary Credit System & Offset Credits with a Liability Period

For many agricultural practices that create offsets, including no-tillage or low-tillage, the temporary credit system as set out in the consultation document would be the most viable. A farm operator must have some level of flexibility in many land management decisions, as the conditions may change throughout the season and therefore require a change in practice. We believe that the annual nature of the temporary system would give many producers, who would likely be hesitant to participate in a longer-term system that includes a liability period, the opportunity to participate and include these offsets in the national program.

Every year, the temporary system would allow producers to state their offset intentions and then have this verified prior to the issuance of any money. Because the offsets have already been created and verified, this significantly decreases the potential liability to producers while enhancing the program flexibility. The lowered risk to purchasers may also make agricultural temporary credits a more saleable product on the domestic or international markets. This type of system will also provide the opportunity to generate fluid credits necessary to ensure market functionality.

Wetlands and riparian areas, due to their long-term nature and related maintenance requirements, are more suited to the offset credit system with a liability period. We believe that the liability period for these offsets should be tiered to reflect the source of the offset as well as other factors, including the conclusion of the Kyoto Protocol in 2012.

After the eight-year project registration period, it is proposed that the offsets be classified as "maintenance tonnes" for a specified period of time. KAP believes that, as with the liability period, this classification could stretch from ten years to 30 years or longer, depending on the type of offset and whether the timeframe can be justified by relevant research data. More discussion with agricultural stakeholders is required to flesh out this issue.

Structure for Agricultural Offsets

KAP is concerned about the inclusion of an application fee, which must be paid by the producer before he or she knows whether their offsets qualify and what benefits may accrue back to the farm. While we respect the need for cost-recovery in this system, we are concerned that the initial fee will discourage producers from applying and limit participation from the agricultural community. Some estimates predict that agricultural soils alone could sequester 736 million tonnes of CO₂ over a twenty-year period¹, so government must ensure that it accommodates the interest and financial limitations of a wide spectrum of farmers. A nominal certification fee may be acceptable to producers as they will have already committed to participation in the offset system.

There will certainly be costs to the producer to participate in the offsets system, whether it be through participation fees or the adoption of new management practices. KAP strongly believes that there must be a proven financial incentive that accrues back to the producer for this system to be successful over the long term. While we support the market-based pricing of the carbon offsets, we must also ensure that the cost to participate in the system does not negate this value. To streamline the process, KAP supports a whole-farm, “bundled” approach within this system.

The baseline period and related regional co-efficients must also be well-established to ensure that agricultural producers are able to benefit from the process. KAP recommends that the Prairie Region (Manitoba, Saskatchewan and Alberta) baseline be established, with flexibility to factor in varying local land use / agricultural practices. Care must be taken to ensure that early adopters of environmentally sustainable practices have the ability to participate in this system.

The baseline date of January 1, 2000 is acceptable to KAP, but we believe that government must fully develop the process by which producers can verify that their actions took place between 2000 and 2006. Depending on the method in which the offset was created and the method of farm record keeping, some flexibility must be included within this system. KAP recommends that producers sign an affidavit or certificate to verify that the practices were undertaken in this time frame, and government could have the option to request further verification via the farmer or other sources when deemed necessary. We believe that the affidavit system would help to keep administrative costs down and simplify this new process for producers.

A New Approach for Manitoba’s Farmers

As interest in the carbon offset issue has increased in Canada and internationally, KAP has begun some investigatory discussions with the Manitoba Agricultural Services Corporation (MASC), formerly Manitoba Crop Insurance Corporation, on the most effective method to introduce and administer an offsets system for the province’s farmers. While not specifically addressed in the context of the offsets document, we wish to outline our vision for this system so that government officials are aware of farmers’ preferred route in Manitoba.

¹ Soil Conservation Council of Canada discussion paper, 1999

MASC has a strong history of working with farmers to administer crop insurance programming and other farm income payments as well as conducting the field administration for environmental programs like Greencover Canada. MASC is also committed to administering Manitoba's Alternate Land Use Services (ALUS) pilot project, a farmer-led conservation program. They also schedule regular visits with the farmer three times each year and have much of the land use data that would be valuable for the offset system. We propose that MASC act as an amalgamator and initial verifier for Manitoba's producers.

Once the credits are proposed (possibly on an annual basis) by the farmer, MASC would apply to the offsets authority for registration and official verification to begin. This would decrease the costs to individual producers through "pooling" offsets and streamlining many administrative processes. The pooled offsets would also help to decrease the risk and liability issues for Manitoba farmers. MASC may be challenged in the context of offsets created by livestock operations, as this is outside the organization's traditional area of expertise. However, we believe that relevant professionals could be accessed through the provincial government, livestock organizations, or other existing programs, like Manitoba's manure management plans to deal with the livestock sector.

As we recommend a whole-farm approach that is further amalgamated on a provincial basis for our industry, a relatively small minimum size for on-farm offsets could be feasible (point 30). KAP recommends 50t for government's initial consideration. We do not see a need for a maximum claim level to be set for individuals (points 133, 134).

The discussions between KAP and MASC are ongoing, particularly in light of the release of this document. We are currently considering a pilot project proposal to evaluate MASC's ability to take on a new role relating to carbon offsets.

Dealing with Disasters

The unpredictable nature of the weather and the environment has always been a consideration when developing agricultural programming and policy, and must also be considered when designing the offsets system. Government must have a clear policy on how offset shortfalls that are caused by a disaster are dealt within the system and provide for the needed flexibility. KAP recommends that government plan to provide some level of assistance to re-establish affected offsets in a timely manner and would recommend further consultation with the industry on methods to do so.

The system must establish how to deal with the non-permanence of many offsets. KAP recommends that a significant reversal (point 186) be defined as a 25% loss of offsets from the bundled on-farm or amalgamated Manitoba agriculture total. We do not support an absolute tonne number to be used, as a percentage-based reversal will ensure less volatility in the system.

KAP believes that risk and the impact of disasters will be reduced if the majority of agricultural credits are under the temporary (annual) system. Risk to the national account, and purchasers

of offset credits, will also be reduced if they are bundled on-farm and amalgamated as part of a broader Manitoba agricultural offset account through MASC, as outlined above.

Other Issues within the Offset System

Though cropland and grazing management are not included in the Kyoto inventory, KAP believes that they must qualify under the carbon offset system (point 28). For Canada to reach its ambitious reduction targets, government must be flexible enough to accommodate these land use practices. Through their inclusion, government will also send a positive signal to farmers that they are fully supportive of agriculture's commitment to further improve environmental performance in this area.

There is a role for government to play to ensure that the market for carbon offsets is fair and competitive, and that there is a clear mechanism for price discovery. KAP agrees that the principle of conservative quantification (point 76) is not required for this system, and could negatively impact the overall objectives. The large number of agricultural credits that will be created in a bundled, on-farm approach and further amalgamated in the process described above would provide sufficient risk management for our industry.

Concluding Remarks

KAP and its member commodity organizations appreciate the opportunity to comment on this important and emerging opportunity for producers. If the carbon offsets system is structured in a way that is flexible and cognizant of the needs of the agriculture industry, we believe that Canada's farmers can help the country meet its emission reduction goals.

We see the provision of carbon offsets and other ecological goods and services as a new economic opportunity for agricultural producers, and it is a policy direction which we fully support. To ensure that farmers are fully able to participate in this system, we recommend a whole-farm, amalgamated approach to reduce administrative and financial costs at the farm level and within government.

As the proposed system takes shape, KAP is committed to working with government to ensure that the final structure works for Manitoba's farm families and also achieves the environmental goals that all Canadians share.