

Carbon Pollution Pricing: Considerations for Protocol Development in the Federal Greenhouse Gas Offset System.

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Introduction

Keystone Agricultural Producers (KAP) is Manitoba's general farm policy organization, representing and promoting the interests of agricultural producers in Manitoba. KAP works for farmers by advocating for policies that will keep Manitoba's agriculture industry profitable, sustainable, and globally competitive. KAP policy is developed by farmers and commodity group members representing all agricultural commodities and all regions of Manitoba.

Agriculture in Manitoba is an economic driver. Primary production and food manufacturing contribute approximately 5.7% to Manitoba's GDP and the industry employs 36,800 Manitobans (Manitoba Agriculture and Resource Development, Foresight and Analysis, 2017). Farmers produce food for Canadians and export commodities for the global marketplace. Farmers are also caretakers of the natural landscape and they work towards environmental sustainability to ensure a viable agricultural industry for future generations.

Farmers implement beneficial management practices (BMPs) on their land that provide ecological goods and services (EG&S). Examples of EG&S include carbon emission reductions, flood and drought mitigation, soil and water enhancement, and providing biodiversity for an array of plant, animal and insect species. Farmers often take the initiative to provide EG&S without financial incentives or acknowledgement from the general public.

The Federal GHG Offset system will provide an opportunity for farmers to be recognized for the EG&S they provide. Farmers will measure the emissions reductions from a project and be compensated through a credit system for the greenhouse gases (GHG) that they did not emit, or for the GHG that they stored or sequestered. Using credits through an offset system may also provide an incentive for farmers to adopt new practices and farming techniques in order to qualify.

Financial Incentives, Project Eligibility, and Program Overlap

Environment and Climate Change Canada (ECCC) is proposing that eligibility in the Federal GHG Offset System will be linked to entitlement to the offset credit and not whether a project proponent has received direct financial incentives for the project. Farmers will have a contractual right to or ownership of the offset credits they generate through projects, and the projects can receive government funding (or not) and still be considered eligible under the proposed system.

Farmers undertake projects or implement BMPs to increase yields, maximize productivity, and to enhance the natural landscape. Some BMPs are implemented without funding from government or environmental agencies as there are potential benefits to an operation. However, many BMPs are implemented because there is funding available to offset project costs.

Manitoba Agriculture and Resource Development use Canadian Agricultural Partnership (CAP) funds for its Ag Action Assurance EG&S stream that offers BMPs to farmers through local watershed districts. Program activity objectives and priorities include the potential for projects to mitigate and adapt to climate change and to increase levels of carbon stored in the soil. Projects that farmers have implemented under this program (and other similar programs) should be considered as eligible projects under the Federal GHG Offset System.

It is reasonable for ECCC to require farmers to disclose information on direct financial incentives as part of offset project registration and reporting, but that requirement should be made clear. As farmers are considering BMP implementation through CAP funded programs, they should understand whether their project could be eligible for credits in the offset system. Farmers should also be aware that if they choose to register their project in the offset system, they will be required to inform ECCC of the project funding they received. KAP recommends that ECCC work with Agriculture and Agri-Food Canada (AAFC) to get an understanding of how CAP projects are delivered and funded, and farmers should be clear on the expectations for their projects in terms of participation in the Federal GHG Offset System.

Protocol Development

A clear and consistent approach to quantifying reductions for a given project type is essential in the development of offset protocols. Only projects within an approved federal offset protocol will be able to generate credits through the federal offset system.

The offset protocol design principle of administrative simplicity is a key component for farmers. The characteristics of the natural landscape are constantly changing and vary by region. For example, a project that reduces emissions in an area with sandy soils may not have the same effect in an area with clay soils. It is important that protocol development is robust to accommodate differences and yet simple enough to encourage participation.

Additionality

For a protocol to be considered within the proposed federal offset system the project types will be assessed based on protocol-level additionality. One example of additionality criteria is that emissions reductions resulting from a project must not be legally required.

The United Nations Framework Convention on Climate Change's tool for the demonstration and assessment of additionality provides a vigorous standard for additionality but it does not account for specific features that will help Manitoba farmers buy-in to the federal offset system.

Manitoba farmers are already making positive environmental changes on the landscape. They are using government programs and non-profit programming like Alternative Land Use Services (ALUS) to implement BMPs. They are also working with their local watershed districts to develop projects that adhere to watershed management plans and provide co-benefits like carbon capture. The principle of additionality inherently dismisses the early adopters of emissions reductions practices and does not allow for the innovators and pioneers to get credits for their projects.

National Inventory Report (NIR)

ECCC is proposing to prioritize the development of protocols for project activities reported in Canada's NIR. The NIR estimates 2018 GHG emissions from the agriculture sector are 59 Mt CO₂ equivalent which is a 1% net decline in emissions from the 2005 baseline. 3.8 Mt CO₂ equivalent of agriculture and

forestry emissions are reported within the energy sector GHG category. It is important to note that emissions reductions (-13 Mt CO₂ equivalent) within the land use, land-use change, and forestry (LULUCF) sector are not included in national totals.

Farmers are not getting credit through the NIR for the short-term storage of carbon in the products they produce, or the long-term storage of carbon in the soil. The NIR also does not credit farmers for nutrient management practices, like the use of enhanced efficiency fertilizer, used to reduce N₂O emissions from nitrogen-based fertilizers.

The NIR is a valuable tool for emissions accounting, but there are gaps in reporting that result in inaccurate portrayals of the agriculture sector. KAP recommends that ECCC consider gaps in reporting when determining protocol acceptance. KAP also recommends that ECCC work with AAFC and producer associations to determine data requirements that can help provide more accurate accounting within the agriculture sector category of the NIR.

Technical Expert Team

KAP recommends that agriculture be represented through AAFC, provincial agriculture departments, commodity associations, and producer associations on ECCC's technical expert team and the roster of experts. Regional and commodity representation and expertise are also important considerations for potential participants.

Priority Project Types

Two project types listed in the discussion document for agriculture are livestock manure management and soil organic carbon. These are logical choices based on the NIR agriculture sector accounting for manure management (7.9 Mt CO₂ equivalent) and agricultural soils (25 Mt CO₂ equivalent). KAP recommends that as ECCC moves forward on protocol development for these projects it includes input from farmers and the agriculture industry, and that messaging around the protocols includes acknowledgement for EG&S and the investment that farmers already make in environmental stewardship and emissions reductions.

Land Values

Manitoba's average farmland values increased by 4% in 2019 and have increased as much as 25% in both 2012 and 2013 (Farm Credit Canada, Farmland Values Report, 2019). Young farmers in Manitoba have identified access to land as a primary barrier to entering agriculture and continuing to farm (Becoming a Young Farmer in Manitoba, 2020). Land must be available and affordable to ensure the long-term viability of the industry.

Farmland values are influenced by many factors including program benefits. The Federal GHG Offset System will denominate the carbon stored within farmland and, depending on the price associated with stored carbon, farmland values could increase. It is currently unclear the extent that the proposed offset system could impact land values in Manitoba. KAP recommends that ECCC monitor the impact of the federal offset system on land values.

Privacy

The Federal GHG Offset System will consist of regulations, protocols, and a tracking system to register offset projects, issue and track offset credits, and share key information through a public registry.

KAP recommends that ECCC consult with the agriculture industry to determine the best practices to protect producers' privacy through the tracking system. It is unclear what type and level of information will be shared publicly. The disclosure of certain information can create concern among producers and could impact participation.

Summary of Recommendations

KAP recommends that ECCC:

- 1) Work with AAFC to get an understanding of how CAP projects are delivered and funded.
- 2) Consider gaps in NIR reporting when determining protocol acceptance.
- 3) Work with AAFC and producer associations to determine data requirements that can help provide more accurate accounting within the agriculture sector category of the NIR.
- 4) Include AAFC, provincial agriculture departments, commodity associations and producer associations on the technical expert team and the roster of experts.
- 5) Include input from farmers and the agriculture industry to create messaging around protocols that includes acknowledgement for EG&S and the investment that farmers already make in environmental stewardship and emissions reductions.
- 6) Monitor the impact of the federal offset system on land values.
- 7) Consult with the agriculture industry to determine the best practices to protect producer's privacy through the tracking system.