



May 1, 2008

**Honourable Gerry Ritz
Minister of Agriculture and Agri-Food
Agriculture and Agri-Food Canada
Floor 9, Sir John Carling Building
930 Carling Ave.
Ottawa, ON
K1A 0C5**

Dear Jamshed Merchant:

On behalf of the Alberta Barley Commission (ABC), I would like to offer the following comments in response to the Federal Government's Offset System announcements, released in March 2008. ABC represents more than 17,000 barley producers in Alberta who seeded nearly 5 million acres of barley in 2007. I would like to comment on a number of areas related to offset policy design and process, particularly: 1) Areas of Support; 2) Baselines; 3) Offset Projects and Protocols; 4) Liability Periods associated with crediting Bio-Sequestration projects; and 5) Timeline and Process elements. Under each category, one or more key concerns or considerations are highlighted.

1) Areas of Support

ABC's members share concerns about specific Offset System design issues as discussed herein. However, we are pleased to support a range of elements that have been announced by the Federal Government, including:

- Start Date: Although our preferred retroactive start date is 1996, ABC accepts that a start date of January 1, 2000 will enable greater agricultural project involvement, while recognizing those who made good faith investments in response to previous market and policy signals from Government. Importantly, this start date is synchronized with a number of other provincial and regional initiatives on offsets.
- Potentially Eligible Project Types: ABC is pleased with the broad range of suggested protocols, including eligible forestry and agricultural reduction projects. Further, enabling bio-sequestration projects will help to maximize reductions, while positioning Canada as an international leader in biological sequestration technologies and practices.
- Protocol Review & Approval Process: Flexible processes and timelines for issuance of credits, project registration, and publication of Offset System Quantification Protocols will expedite the process and jumpstart the market. The Government's willingness to

adopt/adapt available standards, protocols, and methodologies to the Canadian context will also prove beneficial in terms of rolling out the system in a timely, effective manner.

2) Baselines – applying ‘business as usual criteria

In attempting to define protocol baselines, the Government’s Offset System document refers to using “business-as-usual” (BAU) criteria [paragraph 64] (eg., level of industry adoption of a certain practice, common industry practice estimates, etc). ABC believes that embedding BAU criteria into protocol baselines will lead to significant challenges for both project proponents and the Government, while impeding market development. For agricultural projects, BAU introduces an element of uncertainty that does not reflect a move toward establishing a system based on quantifiable, measurable environmental benefits. For Government, attempting to complete qualitative, judgemental BAU tests will lead to heightened resource requirements and general confusion.

For environmental results (emission reductions) to be measured, and thereby allowing for the system’s performance to be monitored and evaluated, Canada’s Offsets System must be based on the concept of environmental incrementality. It is the only additionality concept that provides clear, quantifiable boundaries and criteria to accurately measure reductions and program success. Worldwide, other systems and jurisdictions base project eligibility on the ability to achieve quantifiable GHG reductions and removals. This is particularly true in the US, which is Canada’s first priority for system harmonization. Our ability to harmonize with other trading systems will be impaired if Canada’s Offset System is based on elements inconsistent with universal environmental practice (i.e., employing BAU criteria to assess project eligibility).

Thus, ABC strongly recommends that for non-regulated entities there should be no subjective interpretation of “business as usual” or “common practice”.

3) Projects & Protocols for Offsets

Issue: Certainty for Investing

There is an urgent need for Government to provide the public and market participants with clear signals which offset projects they can count on. In general, clarity around eligible projects and protocols will help to i) drive market participants to gain higher levels of confidence in the system ii) stimulate higher levels of investment in eligible projects in order to bring forward requisite supply and iii) encourage the creation of trading services and infrastructure necessary to facilitate market development.

Stakeholders need time to master the steep learning curves related to quantification methodologies, cost-risk assessments, steps associated with validation/verification, and many other project practices and processes. The sooner policy decisions and announcements related to project eligibility are made, the sooner market participants can ascend these learning curves and become actively involved in the sound growth and success of the Offset System.

Issue: Jurisdictional flexibility

Each province has unique policy, regulatory, program-based green incentives and grid intensity considerations. For the agriculture sector in Canada, there is a wide variation in regulated activities across the country. There is also a patchwork quilt of regional incentives available to drive adoption of certain green practices and technologies (among them: environmental farm plans and bioenergy incentives). To accommodate these differences, eligible protocols must include jurisdictional flexibility provisions and considerations. The use of normalized baselines, which discount these jurisdictional differences and essentially engender regulatory creep, will cripple the ability of the market-based system to work in many jurisdictions. This will not adequately meet the needs of Canadians; in fact, normalized baselines will stifle the timely development of an effective offset system that maximizes reductions from coast to coast. Therefore, ABC believes it is critical to recognize jurisdictional flexibility rather than incorporating normalized baselines into the offset system.

4) Bio-Sequestration & Liability Period

Issue: Addressing Non-Permanence – Managing the Risk of a Sink Reversal

The Government's Offset System document proposes the use of two credit types for Canada's eligible bio-sequestration or carbon sink projects: offset credits with a liability period, and temporary credits - which expire after one year. ABC strongly believes that creating an offset system based on a liability period to manage the risk of reversals will prove to be unworkable, particularly from an offset supplier perspective, resulting in non-monetizable tonnes from potentially valuable bio-sequestration projects. Many farmers, landowners, and forest companies simply won't participate.

A primary implication with the concept of a liability period is that the value of temporary credits will not support the high start-up costs associated with the aggregation of bio-sequestration projects. Rather, the viability of such projects will largely depend on the availability of permanent offset credits. A further implication is that liability periods and the use of any type of mandated caveat tied to the land will result in landowners backing away from committing to projects. This is especially true in the prairies where 50 per cent of the land is leased and obtaining clear title to credits and ownership will be the major issue.

Reversals and/or the risk of reversals can be managed more effectively through a variety of mechanisms, such as mandated reserve holdbacks, employing assurance factors, and private insurance. Allowing project developers to indicate and demonstrate proof of which option is used avoids predicting the most cost-efficient remedial activity at this point, and allows for the most efficient path forward. Experience has shown land transfers can be effectively managed through contract language and clauses developed by aggregator companies.

5) Timeline & Process – Encouraging Efficiency

To ensure Canada's Offset System is as efficient as possible, ABC recommends several process goals be established and practices be put into place:

- a. Ensure the system is adequately resourced, in order to avoid potential backlogs and process delays. Experience with CFIA's plant variety registration process has shown that inadequate resources lead to unrealistic expectations and frustration for all engaged;
- b. Define protocol and project approval turn-around times;
- c. Provide transparency to the review process of projects/protocols, with clearly established criteria, transparent grading systems, and approval templates to streamline the process;
- d. Establish a clearly defined, efficient dispute resolution or appeal process to help avoid unnecessary delays.

Looking Ahead

In order to achieve a late-2008 start to the national Offset System, ABC continues to offer our expertise, experience, and knowledge in moving forward with the offset process. If you have any questions or would like to discuss further steps associated with ABC's engagement in the policy process, please feel free to contact the undersigned at your earliest convenience.

Alberta's barley producers appreciate your time and consideration, and look forward to hearing your response.

Sincerely,



Doug Robertson
Chair, Alberta Barley Commission

