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519-837-1620

(1) 855-800-0306



www.christianfarmers.org



642 Woolwich Street,

Guelph ON, N1H 3Y2

November 6, 2017.

P.J. Partington
Policy Advisor
Ministry of the Environment and Climate Change
Climate Change and Environmental Policy Division
Air Policy Instruments and Program Design Branch
77 Wellesley West
Floor 10
Ferguson Block
Toronto, ON
M7A 2T5

Dear Minister,

EBR 013-1457: Amendments to the Cap and Trade Program and Reporting Regulations & Service Regulation & Administrative Penalties Regulation

The Christian Farmers Federation of Ontario (CFFO) is an Accredited Farm Organization representing the interests of over 4,000 farm families in Ontario.

Linking with Quebec and California

Recognizing that the government has a goal to reduce provincial greenhouse gas emissions, the selection of a Cap and Trade model is intended to provide a lower cost solution. One of the ways to lower the cost is through connecting with other jurisdictions to create a larger market. While the lower cost is a benefit, the CFFO continues to have serious concerns about the overall benefits of connecting Ontario's Cap and Trade system with California and Quebec.

Key Recommendations

Although we do not support linking, recognizing that the intention of government is to link to the existing California and Quebec market, the CFFO has some key recommendations:

- 1) That linking with Quebec and California be delayed until Ontario offset protocols are in place.
- 2) That the linking agreement set out parameters that will a) ensure the Cap and Trade system is resulting in a minimum of GHG reductions in Ontario, and b) limit or minimize the flow of Cap and Trade money from Ontario participants to other jurisdictions.
- 3) That Ontario carefully manage the administration and spending of the Greenhouse Gas Reduction Account based on joint trade and fluctuations in other markets that will impact the amount of money that stays within Ontario.
- 4) That Ontario implement policy and investments that will help make Ontario more competitive in the cost of GHG reductions within the joint Cap and Trade market.
- 5) That greater emphasis be placed on other means of direct reductions of GHGs within Ontario, such as through the voluntary offset market.



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Offset Protocols

- 1) *That linking with Quebec and California be delayed until Ontario offset protocols are in place.*

Part of the expected benefit of the Cap and Trade system implemented in Ontario is that non-capped sectors will be able to provide offsets based on provincially established offset protocols. Although the Cap and Trade system has already been implemented, these offset protocols are largely still not in place. We recommend that joining with Quebec and California not occur until those protocols intended to operate within the Cap and Trade market are in place, and initial registered projects are underway.

Linking Parameters

- 2) *That the linking agreement set out parameters that will a) ensure the Cap and Trade system is resulting in a minimum of GHG reductions in Ontario, and b) limit or minimize the flow of Cap and Trade money from Ontario participants to other jurisdictions.*

Our primary concern is that a significant amount of the money Ontarians spend through the Cap and Trade market will go directly to California because of their more abundant and low-priced compliance instruments (both emission allowances and offset credits). The Environmental Commissioner of Ontario reports that estimates indicate that “\$250-\$300 million could flow from Ontario to purchase California allowances, per year, by 2020.” This money would be far better spent within our own province towards GHG reductions and easing adoption of lower emission alternatives for Ontarians.

While greenhouse gases are a global problem, there are locally felt benefits to their reduction beyond contributing to the overall global reduction. This significant loss of funds means that Ontario has less to invest through the Greenhouse Gas Reduction Account towards furthering local efforts at reducing GHGs. It also means that both the emissions reductions and subsequent local climactic benefits (such as improved air quality) will be enjoyed in California, not Ontario, at Ontarians’ expense.

Ontario should set parameters that require Ontario’s mandatory and voluntary participants to remit a minimum percentage of Ontario compliance instruments at the end of each compliance period. Likewise, administrative penalties should restrict offenders to purchasing their required compliance instruments within Ontario.

Administration of Greenhouse Gas Reduction Account

- 3) *That Ontario carefully manage the administration and spending of the Greenhouse Gas Reduction Account based on joint trade and fluctuations in other markets that will impact the amount of money that stays within Ontario.*

The CFFO is also concerned that government manage spending of the Greenhouse Gas Reduction Account prudently. The government has already begun to spend this money based on estimates of the amount of money it expects to raise.

Within a joint market, factors outside of Ontario’s control, which are already evident in challenges to the legality of California’s market, will impact the money raised in Ontario. Compared to a Carbon Tax



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system, Cap and Trade systems are complex to administer. Factors (economic, legal, political, etc.) that will impact administration in a joint market will only add to this complexity. Cautious forecasting, and prudent management will be vital to ensure spending is kept in line with actual funds raised.

Keeping Ontario Competitive

- 4) *That Ontario implement policy and investments that will help make Ontario more competitive in the cost of GHG reductions within the joint Cap and Trade market.*

There is clear imbalance between the jurisdictions that will form this joint Cap and Trade market, which will directly impact the cost of reductions in each jurisdiction, and thus the price of compliance instruments (emission allowances and offsets) available on the market.

Another key benefit to delaying the linking process is that this gives more opportunity to establish Ontario's Greenhouse Gas Reduction Account and, through it, give Ontarians better financial opportunity to make necessary changes to lower-emission alternatives, starting us on a more competitive footing when linking occurs.

Before joining and after, Ontario should work to be more competitive within this market to ensure the marketability of our Ontario compliance instruments within a joint market, ensuring that the money and other benefits will increasingly stay within Ontario. Part of keeping Ontario competitive is ensuring that Ontario offset protocols and early projects are established before linking.

Other Means of GHG Reduction

- 5) *That greater emphasis be placed on other means of direct reductions of GHGs within Ontario, such as through the voluntary offset market.*

Because a joint market will mean significant purchase by Ontarians of California compliance instruments, the money and emissions reductions will be in California, not Ontario. This means Ontario will need to find other solutions to reduce Ontario's GHG emissions. A voluntary offset market, based on offset projects that don't easily fit within the Western Climate Initiative regulations for offsets, should be established within Ontario to foster greater Ontario GHG reductions.

Many carbon sequestration offset projects, including many within agriculture, would fit well within this voluntary system. It is important for this system, as with the compliance instrument offsets, that aggregation be allowed to ensure the broadest diversity of participants in projects. Also, it is important that in both offset markets, that farmers receive their fair share of the financial benefits from the GHG reductions that result from their stewardship efforts. CFFO will submit more detailed comments to the government's voluntary offset program proposal.

2021-2030 Caps Under the Program

It is important that there be as much predictability as possible in the Cap and Trade market, and for Ontarians broadly, in terms of expectations around emission reductions. Setting caps to 2030 will help to establish greater predictability. However, caps should be reasonably similar to those in other jurisdictions within the larger Cap and Trade market, again, to help keep Ontario competitive.



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Summary

The CFFO is concerned about the impact of joining the Quebec and California Cap and Trade market. Our key recommendations strongly encourage the province to prevent significant loss of Ontario financial contributions through Cap and Trade to jurisdictions outside of Ontario, and ensure, through various means, that there are still significant emissions reductions within Ontario.

We appreciate this opportunity to respond to these proposed amendments and thank you for consideration of our comments.

Sincerely,

Clarence Nywening, President
Christian Farmers Federation of Ontario
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