



August 11, 2011

Chairman Mary Nichols and Members of the Board
California Air Resources Board
1001 "I" Street,
Sacramento, CA 95812

RE: 15 DAY MODIFICATIONS: CALIFORNIA CAP ON GREENHOUSE GAS EMISSIONS AND MARKET-BASED COMPLIANCE MECHANISMS

Dear Chairman Nichols and Members of the Air Resources Board,

On behalf of the organizations listed, we welcome the opportunity to comment on the 15-day modifications document to the cap-and-trade regulation. Our comments focus on two aspects of the cap and trade regulation that are critical for California agriculture – the design and implementation of offsets credits and CARB’s recommendations to the legislature on the use of future allowance revenue.

1. Offset Credits

To ensure that the cap and trade program in California includes high quality offset credits that meet the goals of GHG emissions reductions, as laid out in AB 32, CARB must grapple with the complex and dynamic nature of diverse farming systems, avoid unintended negative incentives, seek to level the playing field for small and mid-scale producers and support innovative, conservation oriented California-based projects.

Section 95973(a)(2): Additionality

We are concerned that, as described, the additionality requirements of offset credits may lead to unintended, perverse incentives. We seek clarity from CARB on how it intends to avoid creating such negative incentives, which we describe in greater detail below.

If early adopters of agricultural conservation practices, which demonstrate reduced GHG emissions benefits, are prohibited from receiving offset credits, early adopters may choose to stop their use of those conservation practices so that they may, in the future, re-establish those practices to then qualify for offset credits. To avoid penalizing early adopters of beneficial practices and creating such perverse incentives, CARB should establish that additionality for agricultural offset protocols is determined by the common practice for the industry and should not include a fixed date requirement of when the practice was to be established on the operation.

For example, the common practice for soil management for a particular crop may be the use of synthetic fertilizer applications. Those who rely on alternative soil management practices (e.g. compost, cover crops, reduced fertilizer use, etc.), which are above the common practice in terms of demonstrated GHG emission reduction benefits and meet the other offset protocol requirements, should be eligible for the offset credit, regardless of when they began their use of the alternative soil management practices.

Section 95977. Verification of GHG Emission Reductions

The marketplace tends toward simplified approaches to agricultural GHG mitigation—rewarding single practices rather than assessing and rewarding whole farming system approaches—which may not lead to overall GHG emission reductions. For example, altering some agricultural management practices to reduce GHG emissions may lead to changes in management practices elsewhere on the farm or ranch that could cause greater, unintended GHG emissions.

To minimize the chance that agricultural offset credit protocols will fail to account for displaced GHG emissions within the agricultural operations, CARB should only adopt offset protocols that account for the full life cycle impacts of agricultural practices on the entire operation.

Impacts on Small and Mid-Sized Farmers and Ranchers

Small and mid-scale agricultural producers because of the size or nature of their operation may find that they alone do not qualify for a sufficient number of offset credits to make the project application and verification process worthwhile. To avoid disadvantaging small and mid-scale producers in the marketplace, where they must compete on price for their commodities with larger competitors who may benefit financially from the carbon market and, therefore, could offer their commodities for lower prices than their smaller competitors, CARB or the state of California (through California Department of Food and Agriculture or the Department of Conservation) should consider other ways to support innovative, conservation-oriented small and mid-scale producers who provide climate change mitigation benefits in California. We describe in greater detail below how allowance revenue can be used to support these efforts.

Prioritize Health and Environmental Co-Benefits to California

We urge CARB to explore how it can give greater weight to offset credits from California agriculture compared to credits from other states and countries. Many of the agricultural activities that provide reduced GHG emissions have additional environmental and health benefits such as improved air and water quality. California should seek to maximize those additional environmental and health benefits by structuring the offset credit market to incentivize the use of credits from California first and outside of the state second.

2. Recommendations to the Legislature on Allowance Revenue

At the December 2010 meeting, the Air Resources Board agreed to include the EAAC recommendations on use of allowance revenue in the Board's final recommendations to the legislature on how the state may allocate future allowance revenue. We strongly urge the Board to include the EAAC recommendations in its final recommendations to the legislature on allowance revenue allocation. The EAAC recommendations are in keeping with other interagency and advisory groups recommendations on allowance revenue, particularly on how allowance revenue can support California agriculture in addressing climate change.

EAAC, AgCAT and ETAAC Recommend Investments in GHG Emissions Strategies in Agriculture

In their final report to the Governor, the Economic and Allocation Advisory Committee (EAAC) recommended investing a portion of allowance revenue in biological carbon sequestration activities in agriculture and forestry¹. Their recommendations were echoed by other advisory bodies for AB 32.

In 2008, as part of the AB 32 Scoping Plan, the Agriculture Climate Action Team (AgCAT) and the Economic and Technology Advancement Advisory Committee (ETAAC) reviewed agricultural practices that may reduce GHG emissions and sequester atmospheric carbon in soils². They found that through a variety of practices California agriculture may reduce GHG emissions between 9.1 to 16.7 MMTCO₂e.

¹ See pages 33, 54 & 55. EAAC. March 2010. Allocating Emissions Allowances under a California Cap-and-Trade Program. http://www.climatechange.ca.gov/eaac/documents/eaac_reports/2010-03-22_EAAC_Allocation_Report_Final.pdf

² Agriculture Climate Action Team. December 2008. Agriculture Sector Write-Up for Public Distribution. AB 32 Scoping Plan. http://climatechange.ca.gov/climate_action_team/reports/CAT_subgroup_reports/Ag_Sector_Summary_and_Analyses.pdf

The AgCAT and ETAAC recommended funding additional research, technical assistance and financial incentives to achieve GHG emission reductions in California agriculture. The ETAAC report noted:

While the carbon cycle returns the majority of this carbon to the atmosphere, sequestering a portion of this carbon or converting it into renewable energy, fuels or permanent products, would translate into a significant reduction of California's carbon footprint. Thus, the agricultural sector also offers the opportunity to reduce GHG emission reductions through the capture of carbon and/or production of renewable low-carbon fuels. Other specific farm-related GHG emission sources can also be controlled and mitigated. **Yet a concerted research, development and demonstration (RD&D) effort and new regulatory incentives and programs will be needed to meet the GHG emission reduction goals in AB 32³.**

The Western Climate Initiative Partners also suggest that one of the public purposes of allowance revenue could be promoting emission reductions and sequestration in agriculture⁴.

Investments in California Agriculture

We cannot rely entirely on the carbon markets to achieve GHG emission reductions in agriculture. The marketplace lacks adequate funding for research to understand opportunities within farming systems to achieve GHG emission reduction. Translating research findings into real opportunities for California agriculture to provide voluntary GHG reductions requires technical assistance. In some cases, when transition costs may be high, financial incentives for farmers are essential. Allowance revenue can turn research into opportunities for certain agricultural activities to help meet the state's GHG targets. And for small and mid-scale California farmers and ranchers who may not benefit significantly from the carbon market because of the size or nature of their operation, state-oriented conservation programs may be a more viable alternative to assist them in reducing barriers to on-farm conservation efforts.

We strongly urge the Board to support the recommendations of EAAC as well as the AgCAT and ETACC by including in its recommendations to the legislature competitive grants for research, technical assistance and financial incentives for agricultural practices that reduce GHG emissions and sequester atmospheric carbon while providing environmental and health cobenefits.

The agriculture community in California has climate solutions to offer. And a well-designed cap and trade program could play a role in incentivizing the industry in ways that could deliver multiple environmental and healths benefits and support California's diverse rural economies.

Sincerely,

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ETAAC. February 11, 2008. Recommendations of the Economic and Technology Advancement Advisory Committee (ETAAC). Final Report. A Report to the California Air Resources Board. Chair: Alan Lloyd Vice Chair: Bob Epstein. <http://www.arb.ca.gov/cc/etaac/ETAACFinalReport2-11-08.pdf>

³ Page 6-1. ETAAC report. 2008.

⁴ AB 32 Scoping Plan. December 2008. Appendix D: September 23, 2008. WCI Design Recommendations (page 7).