

David Suzuki Foundation written brief on proposed Bill C-206

Submitted to the **Standing Committee on Agriculture and Agri-Food (AGRI)**
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The David Suzuki Foundation thanks the Standing Committee on Agriculture and Agri-Food for the opportunity to appear before and submit a brief on Bill C-206.

The Climate Emergency and Agriculture

Canada faces a climate emergency that is resulting in more extreme weather, from heat waves, to droughts, to floods. As Karen Ross of the Farmers for Climate Solutions testified before the committee, farmers face myriad challenges as climate change exacerbates extreme weather events such as floods, droughts, heat waves and severe weather. As the B.C. Task Force on Food Security wrote in its recent report,

Climate change for agriculture brings increased variability in weather patterns and heightened frequency and intensity of extreme weather events such as drought, flooding, and extreme heat, resulting in increased management complexity. Major extreme weather events, such as B.C. wildfires and flooding in 2017 and 2018 have had catastrophic impacts on the sector and on the profitability and livelihoods of farmers and ranchers... Climate change in agriculture is a serious issue. We heard from commodity groups that were already feeling significant threats from climate change. (p. 60)

Mitigating emissions: the role of carbon pricing

The David Suzuki Foundation has long advocated for pricing carbon pollution and we played an important role in advocating for B.C.'s precedent-setting carbon tax. We also intervened before the Supreme Court of Canada in the recent reference case. We note that the court's decision was rendered after Bill C-206 was first proposed to the house. The court affirmed the importance of ensuring carbon pollution is priced across the federation. The court acknowledged that climate change "poses a grave threat to humanity's future" and described it as "a threat of the highest order to the country, and indeed the world."

¹ Correspondence regarding this brief should be directed to Tom Green, Senior Climate Policy Advisor

Shortly after the court's decision was released, Canada reached a watershed moment where we have achieved consensus across the political spectrum on the need to price carbon pollution.

Why put a price on carbon pollution? As Clean Prosperity explains, putting a price on carbon “sends a powerful signal across an entire economy to reduce its carbon footprint, and unlocks the zero-emissions technologies we need.”² Furthermore, by pricing carbon across the economy, decisions account for the harm to society caused by the CO₂ emitted when fossil fuels are burned.

As underlined in the court's decision, based on its assessment of expert opinion and the findings of bodies such as World Bank, the Organization for Economic Cooperation and Development and the International Monetary Fund carbon pricing is an essential tool to addressing GHG emissions and acting on climate change:

In summary, the evidence clearly shows that establishing minimum national standards of GHG price stringency to reduce GHG emissions is of concern to Canada as a whole. This matter is critical to our response to an existential threat to human life in Canada and around the world.³

However, Bill C-206 would erode the Greenhouse Gas Pollution Pricing Act.⁴ It is the wrong solution, sends the wrong signal and is likely to create pressure from other sectors to get their own carve outs.

The Foundation appreciates that many farmers are already working hard to help mitigate emissions, to use soil management practices that help store more carbon and to rebuild local biodiversity. To stay on course for 1.5 C of temperature change as per the Intergovernmental Panel on Climate Change, between now and 2030 the world needs to be reducing emissions by about 7 per cent a year across the economy. As a rich industrial country, Canada must do its fair share. We also support the principle that farmers should benefit from adopting farming practices that mitigate climate change and biodiversity loss.

² <https://cleanprosperity.ca/about-carbon-taxes/why-a-carbon-tax/>

³ References re [Greenhouse Gas Pollution Pricing Act](#), 2021 SCC 11 at paragraph 171.

⁴ The amendment only affects provinces that do not have a carbon pricing system that meets federal requirements. In these backstop provinces, this amendment is intended to provide that any on-farm use of natural gas or propane would be exempt from the charge.

Proposed Bill C-206 has been presented as a way to support farmers by reducing their energy costs, particularly grain drying costs⁵ in federal backstop jurisdictions.⁶ This amendment will not impact farmers in jurisdictions like British Columbia and Quebec that have their own carbon pricing systems and are not subject to the backstop. Its main effect would be to undermine the carbon price by creating an additional exemption and thereby motivating other sectors to seek their own exemptions.

Bill C-206 creates a new fossil fuel subsidy

Another effect of this amendment is to introduce a new, inefficient fossil fuel subsidy (see Appendix for a more detailed explanation of why this exemption would be a subsidy).⁷ In 2009, Canada and the group of G20 leaders agreed to phase out inefficient fossil fuel subsidies. In 2016 at the North American Leaders Summit, Canada reiterated this goal and committed to achieving it by 2025. Adding a new fossil fuel subsidy in 2021 is particularly problematic.

According to the Parliamentary Budget Office this fossil fuel subsidy would cost the federal government \$47 million in 2021-2022, rising to \$60 million by 2024-2025. As the carbon price rises to reflect the social cost of carbon pollution, so too does the subsidy.

Budget 2021 supports for transitioning the agricultural sector

We note that since this legislation was first proposed, Federal Budget 2021 was announced. This budget specifically attends to the energy costs faced in the agricultural sector. It provides:

- \$10 million to help farmers adopt clean energy solutions and begin to transition off fossil fuels;

⁵ Grain drying is energy intensive and required to avoid crop spoilage. Due to the increasing frequency of extreme weather events, farmers have in recent years had to harvest grain with a substantially higher than usual moisture content, requiring even more fuel to dry it than in a more typical year.

⁶ Greenhouse Gas Pollution Pricing Act

1 The definition qualifying farming fuel in section 3 of the Greenhouse Gas Pollution Pricing Act is replaced by the following:

qualifying farming fuel means a type of fuel that is gasoline, light fuel oil, marketable natural gas, propane or a prescribed type of fuel. (combustible agricole admissible)

⁷ The WTO defines subsidies as:

1. Direct transfer of funds (e.g., grants, loans)
2. Government revenue foregone or not collected (e.g., fiscal incentives such as tax credits)
3. Government-provided goods or services other than general infrastructure
4. Price support (such as below-market fuel prices).

By not collecting the regulatory charge on propane and gas, the government would be forgoing revenue and therefor subsidizing fuel for farm use.

- \$50 million to help farmers purchase more efficient grain dryers; and
- Approximately \$100 million of the money that farmers currently pay in carbon levies on natural gas and propane will be rebated back to farmers.

Such grants and rebates are a better solution than Bill C-206. Done properly, rebates preserve the price signal, rewarding agricultural producers and innovators who come up with ways to reduce reliance on fossil fuels in agricultural operations. Note too that by ensuring the price rises predictably over time, the returns from investments in efficiency and low carbon alternatives are predictable: sudden shocks are avoided. This approach will better position the sector to compete as climate ambition ramps up around the world.

Availability of ‘off the shelf’ replacement technologies

At the committee meetings much emphasis was placed on the lack of alternative technologies and some interveners argued this was a reason to pass Bill C-206. This argument should be rejected, for two reasons. First, there is about a 30 per cent variability in the efficiency of gas and propane grain dryers already deployed and available on the market. Carbon pricing will make more efficient grain dryers more cost-effective and justify maintenance expenditure that maximize output per kilogram of emissions.⁸ Second, the Foundation cautions that adopting the line of reasoning that where no ‘off the shelf’ technologies are presently available, carbon pricing should be eliminated has the potential to be used to chip away at carbon pricing across the economy. Putting a price on carbon helps drive a shift in technologies and practices, creating new ones where none existed before.

Recent reviews have shown that when the right set of policies are in place to create suitable incentives, technological innovation accelerates remarkably, as is illustrated by policies designed to increase the supply of zero emission vehicles.⁹ Already, Triple Green Products in Manitoba offers a biomass burner that can be used to retrofit grain dryers, though as raised during committee discussion, the impacts of using crop residues on soil health and productivity require consideration.¹⁰ In their promotional material they specifically mention a benefit of their product is that producers can avoid the carbon tax. The Triple Green Products example illustrates that when policy makers put in place a predictable and steadily rising price signal, innovation is incentivized.

⁸ See guidance from Ontario Ministry of Agriculture, Food and Rural Affairs.

<http://www.omafra.gov.on.ca/english/engineer/facts/17-001.pdf>

⁹ Rokadiya, S., & Yang, Z. (2019). Overview of global zero-emission vehicle mandate programs. *International Council on Clean Transportation (ICCT)*..

¹⁰ The Foundation also has concerns around using biomass from forest harvesting as a fuel, since this can exacerbate conversion, biodiversity loss and in many circumstances is not carbon neutral. The point of this example is not that the Tripple Green Biomass burner is an ideal technological solution, but rather that innovators are clearly responding to the price signal provided by carbon pricing.

Entrepreneurs come forward with improved technology and low carbon solutions soon appear on the market.

Grain drying and heating of farm buildings require relatively low temperatures (as opposed to the high temperatures required for steel making). Such temperatures are readily obtained using an electrically-driven heat pump and heat pumps are already used in residential and commercial applications and for industrial processes¹¹ and can be scaled according to the heat output needed.¹² Heat pumps have the advantage of delivering roughly three to four times more heat than the electrical energy they consume, so a heat pump that draws 10kW will deliver 40kW of heat.¹³ Furthermore, in the case of propane or gas used to heat farm buildings, beyond replacing furnaces with heat pumps, the energy efficiency of farm buildings can be improved through retrofitting.¹⁴

There have been a number of estimates on the impact of pricing carbon pollution on farm profitability. These estimates are flawed because there is an implicit assumption that producers do not adjust their operations as the price on carbon increases. They are therefore worst case estimates. For instance, the Agricultural Producers Association of Saskatchewan estimates, based on a \$0.031/L propane carbon tax for 2019, \$0.0619/L in 2021, and \$0.263/L for 2030, that the per acre impact of the carbon tax on grain drying costs will rise from \$0.52/acre in 2019 increasing to \$1.04/acre in 2021 and \$4.44/acre by 2030. In this estimation, propane use is held constant over 2019 to 2030 at 16.8 L/acre. However, we know from experience that an increasing price motivates efforts to use inputs more efficiently and incentivizes innovation to use substitutes. This estimate is therefore an overstatement of future costs.

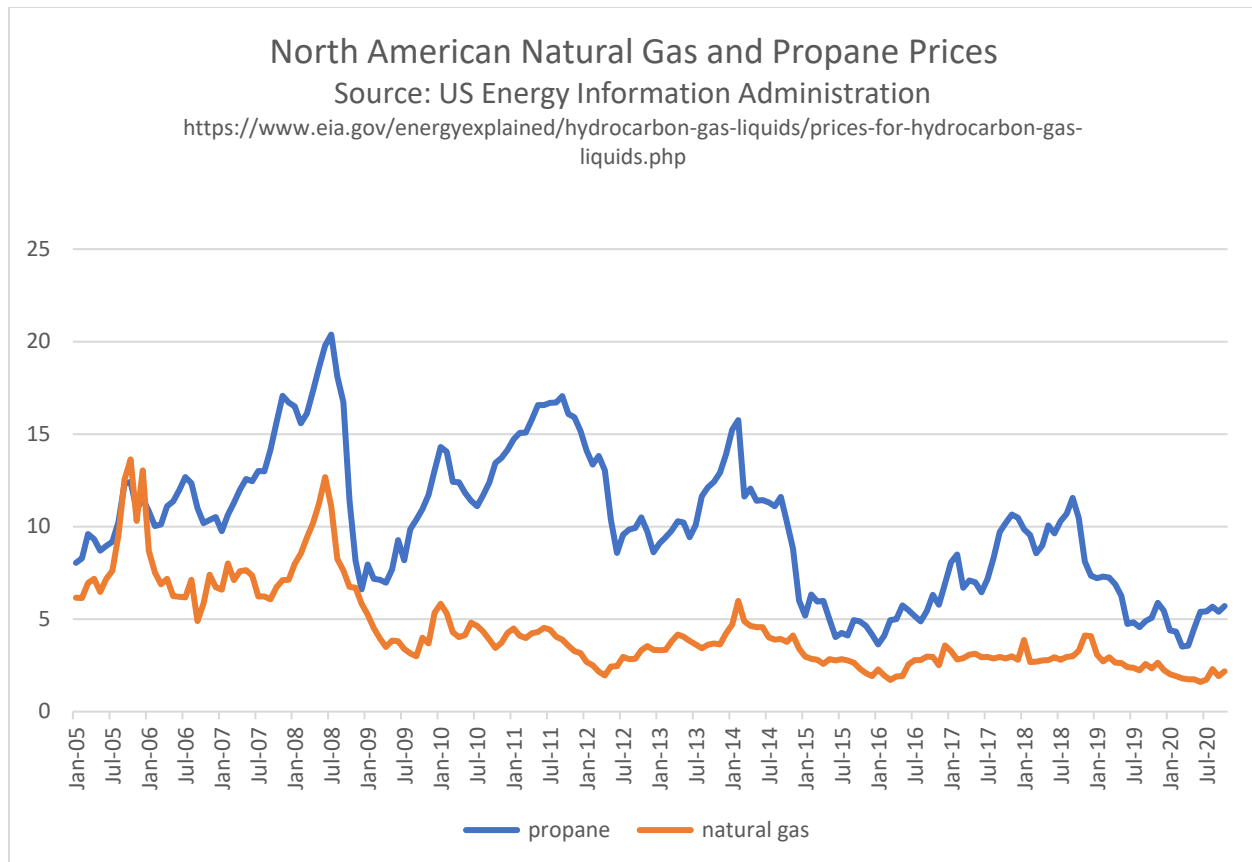
By design, the carbon price rises predictably over time. The underlying cost of the gas or propane has trended downwards since the start of the fracking revolution (around 2009) as the following figure illustrates. In effect, the agricultural sector has greatly benefited from falling prices of fossil fuels, which has decreased the incentive to economize on propane and gas.

¹¹ See for instance https://industrialheatpumps.nl/en/applications/drying_processes

¹² Large heat pumps will require that the farm have suitable electrical service. Utilities will be more likely to invest in upgrades to local electrical distribution when they know that there will be market-driven demand for more electricity.

¹³ This energetic gain declines as the ambient air temperature falls deeper into the sub-zero range, but given that most grain drying occurs shortly after harvest, this will not be an issue. During extreme cold weather, heating a farm building with a heat pump would not deliver an energetic gain.

¹⁴ <http://www.omafra.gov.on.ca/english/engineer/facts/06-013.htm#6>



Agriculture and Agri-Food Canada reviewed estimates provided by the provinces and producers associations. They found:

“the average per-farm cost of pollution pricing associated with grain drying by province ranges from 0.05% to 0.38% of net operating costs for an average farm, equivalent to \$210 to \$774, depending on the province in question (Annex 1).”¹⁵

Note that Bill C-206 would imply that the greatest fossil fuel subsidy relief would go to the farms that use gas or propane and have the least energy efficient operations. It would not reward farmers who have made investments or adjusted operations to reduce their fossil fuel inputs.

Though Bill C-206 may reduce the energy costs for agricultural producers in backstop jurisdictions in the short term, it doesn’t help position Canada’s agricultural sector for the inevitable need to ratchet down fossil fuel consumption, to improve energy efficiency

¹⁵ <https://www.agr.gc.ca/eng/canadas-agriculture-sectors/estimated-costs-of-carbon-pollution-pricing-in-relation-to-grain-drying-in-2019/?id=1593020538858>

and to switch to clean energy sources. Furthermore, global markets are increasingly paying attention not only to price, but also to the carbon footprints of products.¹⁶ Replacing a price on carbon with an additional fossil fuel subsidy, as Bill C-206 proposes, sends precisely the wrong signal. It is an approach that will add to our mitigation challenge and the threat of climate change. It also is misaligned with our global commitments to act on climate and to eliminate fossil fuel subsidies at a time when all of Canada's main political parties have declared their support for climate action and carbon pricing.

The approach taken in Budget 2021 to assist the agricultural sector in making investments that over time will reduce the need for fossil fuel inputs and recycle carbon tax revenues, will better position farmers for a carbon constrained future. Government support to help farmers adopt climate resilient practices is also helpful.¹⁷ On farm generation of renewable electricity could provide a new source of revenue and support rural resilience to extreme weather.

Conclusion

In conclusion, the David Suzuki Foundation urges the committee to reject this bill, the effect of which is to create a new fossil fuel subsidy and to erode carbon pricing in Canada. There are many more productive approaches to assisting the agricultural sector to reduce both the consumption of fossil fuel inputs and farm energy costs.

Appendix—Fossil Fuel Subsidies

Subsidy Definitions

WTO definition from the *Agreement on Subsidies and Countervailing Measures* (ASCM), Article 1.1, states:

- 1.1 For the purpose of this Agreement, a subsidy shall be deemed to exist if:
- (a)(1) there is a financial contribution by a government or any public body within the territory of a Member (referred to in this Agreement as “government”), i.e. where:
 - (i) a government practice involves a direct transfer of funds (e.g. grants, loans, and equity infusion), potential direct transfers of funds or liabilities (e.g. loan guarantees);

¹⁶ Moran, D., Wood, R., Hertwich, E., Mattson, K., Rodriguez, J. F. D., Schanes, K., & Barrett, J. (2020). Quantifying the potential for consumer-oriented policy to reduce European and foreign carbon emissions. *Climate Policy*, 20(sup1), S28–S38. <https://doi.org/10.1080/14693062.2018.1551186>

¹⁷ See recommendations on this topic by Farmers for Climate Solutions 2020, A better future starts on the farm: recommendations for recovery from Covid-19 in Canadian agriculture.

- (ii) government revenue that is otherwise due is foregone or not collected (e.g. fiscal incentives such as tax credits)(1);
- (iii) a government provides goods or services other than general infrastructure, or purchases goods;
- (iv) a government makes payments to a funding mechanism, or entrusts or directs a private body to carry out one or more of the type of functions illustrated in (i) to (iii) above which would normally be vested in the government and the practice, in no real sense, differs from practices normally followed by governments,
- or
- (a)(2) there is any form of income or price support in the sense of Article XVI of GATT 1994;
- and
- (b) a benefit is thereby conferred” (WTO, n.d.)

As the IISD observes, “the ASCM subsidy definition is also very close to the definition of “government support” used by the OECD in its inventories. The OECD has produced an inventory of support measures for fossil fuels in the OECD countries and a selection of partner countries for the past several years (OECD, 2018a). Its large body of work and publications includes a table of types of support measures for around 40 countries, including Canada and its provinces and territories (OECD, 2018b).”