



## ***Agriculture is Everyone's Business***

### **Agricultural Producers Association of Saskatchewan Response to "Technical paper: federal carbon pricing backstop" June 28, 2017**

The Agricultural Producers Association of Saskatchewan (APAS) is Saskatchewan's general farm organization, and serves as the voice of thousands of farmers and ranchers in our Province. As the stewards of 40% of Canada's cultivated farmland and 35% of Canada's pasture land, Saskatchewan producers are key players in Canada's land use and carbon cycle management. We are also a significant economic sector, producing between 25% and 30% of Canada's agricultural exports. This potential has been recognized by the Federal Government in its ambitious targets to increase Canada's agriculture and agri-food exports to \$75 billion annually by 2025.

Our members face increasing challenges from climate change impacts and face considerable economic pressures from any potential carbon pricing scheme.

**APAS has carefully reviewed the Federal Backstop Paper. Our overall assessment is that the Government of Canada's carbon pricing backstop policy fails to recognize agriculture's contribution to carbon sequestration and emissions reduction in Canada. The imposition of the proposed carbon levies will reduce farm incomes and impact our competitiveness while failing to result in emissions reductions in the agricultural sector.**

**APAS strongly opposes the imposition of the carbon pricing policy on Saskatchewan agricultural producers.**

#### **Producers do not set their prices**

The Technical Backstop paper is developed around the basic assumption that a carbon levy provides an incentive to reduce energy use through conservation and efficiency measures. This assumption does not apply to Saskatchewan agricultural production.

The federal government has not conducted a detailed cost analysis estimating the financial impact the proposed surcharges and levies will have on the agricultural sector. The levy schedule contained in the Technical Backstop paper will result in a range of direct and indirect costs on primary agricultural production. Producers will bear most of these costs through increased prices on their inputs as well as through price reductions for agricultural products.



Unlike other sectors in agricultural supply-chains, primary producers lack the ability to offset costs by increasing prices to consumers and/or lowering the prices paid for their inputs. In addition to the direct levies on farm inputs such as fuel and natural gas, the proposed levies will also increase the operating costs for farm input supply firms, as well as buyers and processors of agricultural products. The net effect for producers is an increase in farm input costs and reduced prices for agricultural products.

Because producers do not set the price for their products, strong incentives already exist to increase efficiency and reduce operating costs. Primary producers have made significant efficiency gains through the adoption of farming methods and technologies that reduce energy consumption and improve soil health. The federal carbon pricing backstop policy fails to recognize and rewards these gains.

## **Cost Estimates**

The Technical Backstop paper proposes levies on liquid fuels that range from 2 to 3 cents per litre for diesel and gasoline, rising to 13 and 15 cents per litre by 2022. A similar rate schedule is proposed for gaseous fossil fuels, such natural gas. Rates on solid fossil fuels, such as coal, range from \$18 to \$22 dollars in 2018, rising to \$90 and \$110 dollars by 2022.

The Technical Backstop paper proposes an exemption on farm fuel for “registered farmers” and “certain farming activities”. Although the details of these exemptions are left unclear, it is unlikely they will be sufficient to shelter agriculture from the full financial impact associated with higher production, storage, and marketing costs.

The proposed levies and surcharges will impose direct and indirect costs for primary producers. A cost estimate follows:

### **Direct costs**

- **Farm fuel consumed in field operations:**
  - The proposed 2.74 cents per litre levy would increase Saskatchewan farm fuel bills by \$21,665,160 based on the 790.7 million litres of farm fuel used in 2015/16. At \$50 per tonne and 9.79 cents per litre, the fuel increase would rise to \$78,832,790 by 2022, based on 2015/16 consumption.
- **Agriculture energy (excluding farm fuel):**
  - **Natural Gas:** The proposed 1.96 cents per cubic metre levy on natural gas would increase producers’ heating bills by \$1,483,720, based on 75.7 million cubic metres used for farm heating. By 2022, the proposed 9.79 cents per m<sup>3</sup> levy would increase natural gas costs by \$7,411,030 per year (based on current consumption).



- **Electricity:** Based on recent emissions data, it is estimated that over 13 million tonnes of CO<sub>2</sub> and other emissions were produced in coal-fired power generation in Saskatchewan. At \$17.72 per tonne levy on coal emissions, we estimate that power providers would need to increase their rates by 8.6% to recoup the additional costs. The 8.6% rate increase would result in Saskatchewan producers paying an additional \$11,072,578 in electricity expenses, based on Statistics Canada estimated total of \$127,782,000 electricity expenses in Saskatchewan in 2016. In order to recoup costs of a \$88.62 per tonne levy by 2022, power providers would need to increase rates by 43%. This would lead to Saskatchewan producers paying an additional \$55,375,443 in electricity expenses.

## Indirect Costs

- **Fertilizer (nitrogen and phosphorous):** Manufacturers and retailers to increase prices to offset surcharges on production emissions, as well as increased costs related to the storage and transportation of fertilizer products from the manufacturing plant to the farm gate.
- **Farm chemicals:** Manufactures and retailers to increase chemical prices to offset surcharges on production emissions, as well as increased costs related to the packaging and transportation of chemical products from the plant to the farm gate
- **Commodity transportation and handling:**
  - Producers will incur higher fuel costs to ship product from farm gate to handling, receiving, and processing facilities (e.g. primary elevators and livestock auction markets). It is estimated that 20% of farm fuel is used for this purpose.
  - Buyers, handlers, and processing facilities will face higher operating and transportation costs. Buyers of agricultural products will lower their prices to offset these increased operating costs.
  - Canadian railways will receive an adjustment in the Maximum Revenue Entitlement to account for increased fuel costs. Based on 2016 MRE calculations, a 1% increase in the freight adjustment index would result in a \$13,626,295 increase in rail freight paid by primary producers.

## Competitiveness issues

Proximity to export markets puts Saskatchewan agricultural producers at a competitive disadvantage to other agricultural exporting regions and nations. For example, there are some grain producing regions in Saskatchewan that are up to 1,900 kilometres from export position. The vast majority of Saskatchewan cattle are also transported



provincially and internationally to market. The feedlot and meat processing industries in Saskatchewan are lacking relative to the size of our provincial beef herd.

Distance to market lowers the prices Saskatchewan producers receive for their products within Canada and internationally. Higher transportation costs as a result of the proposed carbon levies will compound this problem further. To date, producers have overcome these geographical disadvantages through efficiency gains and improved productivity. The imposition of carbon levies will constrain our ability to make the necessary investments to stay competitive.

We also note that these higher costs come at a time when Saskatchewan producers are facing competitive pressure from regions, like the Black Sea, which are increasing their production capacity within closer proximity to key export markets. Canadian environmental and agricultural policies need to assist producers in meeting these competitive challenges.

The federal government has not released a detailed estimate of the direct and indirect costs primary producers will bear as a result of the proposed carbon levies and surcharges. The Technical Paper commits to reviewing the impact of carbon pricing on trade-exposed industries by 2020. This review and analysis needs to be conducted **prior** to developing the federal policy on carbon pricing.

### **Agriculture as a solution to climate change**

Producers are a major potential resource in efforts to address climate change. Globally, as the Global Climate Action Agenda asserts, an annual increase in sequestration in agricultural soils of 4 parts per thousand would halt the annual increase in CO<sub>2</sub> in the atmosphere. This is an opportunity that cannot be ignored, or undervalued.

Agricultural producers are currently major players in carbon sequestration. Saskatchewan crop producers currently sequester an additional 8.5 megatonnes of carbon through improved management practices every year, and prairie pastures sequester over 2 billion tonnes. The value of current agricultural sequestration must be recognized by decision makers.

Canadian offset policies need to explicitly recognize the opportunities to achieve carbon emission mitigation through agricultural sequestration and any offset system design must be designed to effectively recognize this potential. Meaningful achievement of this potential requires an offset program design that actually takes into account the business considerations faced by farmers and ranchers.



We would like to stress that for any offset system to work for agriculture, several essential factors about the nature of our business must be considered:

1. The credibility of any offset system in the agricultural community depends on recognition of existing storage and ongoing sequestration. This is particularly important given the shortcomings of the Alberta model, which are widely known in Western Canada. Overly technical or bureaucratic definitions of “additionality” would seriously reduce the credibility of an offset program among producers.
2. Additional production costs such as carbon taxes, or increased pressures and price incentives to maximize production, must be recognized when determining the value of carbon offsets in the agricultural context. The decision to participate in offset arrangements will be made by producers on a business case, therefore offset programs must demonstrate a real and tangible financial benefit to producers in order to be considered a relevant option.

For example, offset credits could play a major role in preventing the cultivation of grassland carbon sinks when market pressures create an incentive for their conversion to crop production. Offset credits can also help producers improve their financial capacity to re-invest in technologies that reduce carbon emissions or improve sequestration.

3. Agriculture does not have a “business as usual” or any easy measure of additionality. Each growing season is a completely different set of production factors and market risks resulting in changes to the production practices that year. Each eco-region has a dynamic and complex range of production variables which must be managed. There have been continual transformative changes in agricultural production technologies, management practices, and crop mixes in the last 25 years, and change continues in a very dynamic fashion. An overly “Conservative” approach to the definition of baselines and sectoral “additionality” face technical difficulties and could render any program design effectively redundant in the face of other market pressures.
4. Offset program design must allow for compatibility with other government farm stewardship and private sector environmental stewardship programming. It also needs to take into account the financial business case for adopting new technologies, new crop varieties, or new production methods that enhance carbon sequestration. The decision to participate in new and enhanced initiative on the landscape is best achieved when those factors are designed to work in an integrated fashion.
5. Offset protocols need to avoid administrative complexity, given that agricultural producers already face a considerable burden of paperwork.



6. Offset program design needs to be adaptive enough to allow for adoption of new genetic and crop management technologies. For example, development is underway on plant varieties that produce double the root mass, with double the potential sequestration. Researchers are also working on maximizing photosynthesis. These technologies are essential if we are to meet sequestration targets.

## **Conclusion**

APAS welcomes the opportunity to address the Federal Backstop technical paper. We respectfully request that the federal government consider the enormous potential that we have as producers to help meet our carbon targets. Punitive financial impacts will not help us fulfill this potential.

For more information about this submission, please contact the APAS Policy Department. Email [policy@apas.ca](mailto:policy@apas.ca) / Phone: 306-789-7774 ext. 2.