

May 17, 2019

The Honourable Catherine McKenna, MP
Environment and Climate Change Canada
200 Sacré-Coeur Boulevard
Gatineau, QC
K1A 0H3

Dear Minister McKenna:

The Ontario Federation of Agriculture (OFA), respecting the views of our members, remains very disappointed with the federal government's current carbon pricing policy measures.

Our disappointment stems from the federal government's a lack of understanding of the biology and economics of agricultural production and marketing. Minister, your carbon pricing policies will have significant negative impacts on our farms and farm communities.

Farming is a business that requires both large capital investments and critical risk management strategies. Farming involves the management of biological processes and living organisms that are subject to unpredictable climatic and environmental conditions, rarely under farmers' control. Returns are uncertain and variable.

For the majority of Ontario's hundreds of agricultural products we compete in a global marketplace – we must compete against products from other countries that do not necessarily operate under the same high standard of environmentally and socially responsible legislation. Global commodity prices dictate how much our agricultural producers receive for their commodities. Ontario farmers are price takers, not price setters.

Current carbon pricing policy attempts to internalize the external costs of greenhouse gas (GHG) emissions and are intended to provide an economic incentive to emitters to lower emissions. However, energy use in agriculture is mostly price inelastic. Legislated increases to the price of fuels will have a relatively small effect on the quantity of the fuels used for food production.

There are currently no replacements for fossil fuels in agricultural production, and major efficiencies in fuel use have already been achieved. Consequently, a carbon tax serves only to reduce farm margins. It is punitive.

Alternatively, if farmers are able to recover the cost of carbon fees in prices, the fees serve as a regressive tax on lower income Canadians who spend a carbon-distorted disproportionate share of income on food.

In short, carbon taxes are neither appropriate nor effective in the agricultural sector.

OFA believes that all on-farm fuels used in agricultural production (including but not limited to gas, diesel, natural gas, and propane) should be exempt from carbon tax policies. In a highly competitive marketplace, where margins are very tight, a carbon tax represents a legislated increase in the cost of production (or the cost of food) that hurts competitiveness and ultimately threatens our ability to provide local food products to Ontarians and globally.

Some farm fuel purchases are exempt from the carbon charge, including an 80% exemption for propane or natural gas used to provide heat and/or CO₂ to greenhouses. However, not all legitimate farm fuel purchases are eligible under the current exemptions, such as heating and cooling of livestock barns, grain drying, cooling of perishable commodities, and the production of maple products. By selective exemption the government has created discord in the agricultural community and may ultimately create a perverse incentive for users to shift from a clean burning fuel to one that is more carbon intensive.

In proposing a complete exemption for the carbon charge on all farm fuels, we considered the risks of carbon leakage to agricultural production. We also considered the areas farmers still pay the carbon charge passed on by primary input suppliers of fertilizers and crop treatments, containers and packaging, and from deliveries to farms or transport of commodities to market. These carbon charges are absorbed by farm operations and in most instances cannot be passed through to wholesalers or retailers, where prices are often based off commodity exchanges.

Canadian agriculture has made and will continue to make significant inroads to reducing greenhouse gas emissions. Modern farming practices enable GHG reduction and carbon sequestration. Farmers have and will continue to do their part to address climate change.

There are further ways to reduce greenhouse gas emissions in the agricultural sector. For example, the federal government could increase the pace and reach of high speed broadband internet infrastructure to facilitate the use of precision agricultural technologies, extend natural gas to rural businesses to allow access to a cleaner burning fuel, and reinvest in agricultural extension services to accelerate the adoption of beneficial management practices that can serve to reduce, sequester or destroy atmospheric greenhouse gases.

Minister, you have partially recognized our arguments for an agricultural exemption to the carbon tax on farm fuels. We strongly urge you to be consistent with a sector-wide exemption for the good reasons we present above.

Sincerely,



Keith Currie
President