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Shifting into Reverse on Climate Commitments: Bill C-234, An Act to Amend the Greenhouse Gas Pollution Pricing Act[1]

David Suzuki Foundation comments submitted to the **Standing Senate Committee on Agriculture and Forestry**, **44th Parliament, 1st Session**[2]

September 26, 2023

The Climate Emergency and Agriculture

Thank you for the invitation to speak to you today. I'm a Senior Climate Policy Adviser with the Foundation, I have a background in ecological economics, earning my PhD at UBC, so also pleased to be here with Professor Harrison, whose research I deeply respect[3].

I'm speaking to you from Vancouver, in Coast Salish territory. Finally, the rains have arrived. As you know, thanks to the world's ongoing fossil fuel burning, climate change resulted in extremely dry conditions this past summer. The tally to date of this extended and supercharged wildfire season is over 16.5 million hectares burned across Canada, twice the previous record, seven times the 25-year average, turning our forests from sink to source of emissions and filling the air with harmful smoke[4].

Climate change is already causing problems for farmers, whether in the form of drought, flooding or extreme weather conditions. On a global scale, climate change is increasingly jeopardizing food security.

At this time of increasing peril to humanity's life support system, we need parliamentarians around the world to advance ambitious and well-designed climate policy. Emissions need to be halved by 2030 to keep 1.5C in reach.

As Bill C-234 proposes to amend the *Greenhouse Gas Pollution Pricing Act* to reduce emissions

[1] Per the legislative summary, "This enactment amends the *Greenhouse Gas Pollution Pricing Act* to expand the definition of *eligible farming machinery* and extend the exemption for qualifying farming fuel to marketable natural gas and propane."
[2] Correspondence regarding this brief should be directed to Tom Green, PhD, Senior Climate Policy Advisor, tgreen@davidsuzuki.org
[3] Because witnesses have five minutes to make their comments before the committee, not all of the material in this brief was covered
[4] Based on latest numbers reported by the Canadian Interagency Forest Fire Centre https://ciffc.net/situation/

coverage, I wish to underscore that economists and climate policy experts broadly agree that a key tool to drive down emissions is carbon pricing. To be effective, it should be applied broadly across the economy, with provisions for revenue recycling and other measures to address equity, and government investment to support development and adoption of cleaner technologies[5].

At last week's Climate Ambition Summit, convened by the UN Secretary General, more countries joined Canada's Carbon Pricing Challenge[6], an initiative that aims to triple the coverage of carbon pricing mechanisms around the world to reach 60 percent of global emissions by 2030. As the President of the European Commission Ursula von der Leyen explained, the E.U. would be teaming up with other countries, "…to unlock the potential of carbon pricing worldwide, to the benefit of people, and the benefit of the planet[7]."

Furthermore, just today, the International Energy Agency released its updated *Net Zero Roadmap*[8], showing that with bold action, and thanks to the rapid scaling up of renewable energy, 1.5C is still in reach. One of the cornerstone policies used to drive down emissions in their roadmap to a safe climate system is carbon pricing[9].

What Bill C-234 does is erode carbon pricing by reducing emissions coverage, without offering a substitute mechanism for bringing down emissions from agricultural use of gas and propane, offering a glaring example of policy incoherence.

It's critical to note that since Bill C-206, the predecessor to 234 was first introduced, Bill C-8 passed into law, ensuring that revenue from pollution pricing applied to agricultural operations in backstop provinces is now recycled in a way that reduces costs to farmers while maintaining the incentive to abate emissions. Bill C-8 is better climate policy, while Bill C-234 deserves to be scrapped.

The slippery slope: undermining pollution pricing with sector-by-sector exemptions

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[5] I also refer the committee to the report of the CESD, "There is a broad consensus among expert international bodies, such as the World Bank, the Organisation for Economic Co-operation and Development, and the International Monetary Fund, that carbon pricing is critical to reducing greenhouse gas emissions." And "… carbon pricing is broadly recognized as one of the most efficient policy approaches to reducing greenhouse gas emissions. Emission reductions therefore depend strongly on ensuring that the pan-Canadian approach to carbon pricing is implemented effectively—which in turn requires that it be applied broadly and promptly—and becomes increasingly stringent." https://www.oag-bvg.gc.ca/internet/English/parl_cesd_202204_05_e_44025.html

[6] "Launched at COP26, the Global Carbon Pricing Challenge calls for a partnership of carbon pricing champions from around the world to expand the use of carbon pricing by strengthening existing systems and supporting emerging ones. The Challenge also creates a forum for dialogue and coordination to better understand policy design choices and to support other countries in adopting carbon pricing." See https://www.canada.ca/en/services/environment/weather/climatechange/climate-action/pricing-carbon-pollution/global-challenge.html

[7] https://www.newswire.ca/news-releases/canada-builds-momentum-and-welcomes-additional-champions-to-the-global-carbon-pricing-challenge-829485043.html

[8] https://iea.blob.core.windows.net/assets/4d93d947-c78a-47a9-b223-603e6c3fc7d8/NetZeroRoadmap_AGlobalPathwaytoKeepthe1.5CGoalinReach-2023Update.pdf

[9] See page 61: "All regions introduce pricing of CO2 emissions alongside other policies designed to bring about clean energy transitions in the NZE Scenario."

Bill C-234 would set Canada on a slippery slope of considering **sector-by-sector, special-interest-by-special-interest** exemptions. Each sector can come up with parallel arguments as for why their sector should have exemptions from pollution pricing.

Indeed, in a recent op-ed in SaskToday.ca, Franco Terrazzano falsely claims that scrapping carbon pricing on heating fuel for agriculture will increase affordability, "Don't believe any politician, or senator, who claims they want to improve affordability unless they are willing to do one simple thing: scrap their carbon taxes[10]." Such rhetoric also ignores how the costs of climate change will keep climbing unless we get emissions under control. Statements by some parliamentarians about their commitment to "axing the carbon tax" are troubling and suggest that this bill is a trojan horse, especially given that no meaningful climate policies are offered as a replacement[11].

Listening to previous interventions on this bill, the claim has been made that Bill C-8 is failing to help producers because the federal rebates do not fully offset the costs associated with the carbon levy applied to heating fuel. This argument cannot be true sector-wide—indeed, some farms will come out ahead—and some of the examples used do not hold up to scrutiny. I provide an example in my written testimony.

> During your meeting of September 21st a hypothetical example of a farm with total expenditures of $1 million would get back $1,730, which was described as a pittance. However, according to the PBO, fuel expense relative to farm revenue on Canadian farms ranges from a low of .9% for poultry and egg production to a high of 4.7%, depending on farm type. For grain farming, it's 3.8%. However, this is for all farm fuel,not just for heating fuel, heating fuel is about 20% of the total on-farm fuel use, as mentioned by Mr. Goodlet in his testimony before the committee last week. So, in this example, assuming it was a grain farm with total fuel expenditures of about $4,000, of which about $800 would be heating fuels, and an even smaller portion thereof would be costs associated with the carbon levy on heating fuels. Far from a pittance, the amount rebated seems more or less proportionate to the producer's carbon levy expenditure – but critically the incentive to address emissions is maintained[12].

The carbon levy creates an incentive to innovate and to invest in efficiency and fuel switching

To help the sector transition away from fossil fuels, Agriculture and Agri-Food Canada launched

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[10] https://www.sasktoday.ca/highlights/opinion-axe-the-tax-on-farms-and-food-7573451?

[11] https://www.nantonnews.com/opinion/columnists/carbon-tax-driving-up-the-cost-of-food-hurting-canadian- farmers-and-families-say-conservative-mps

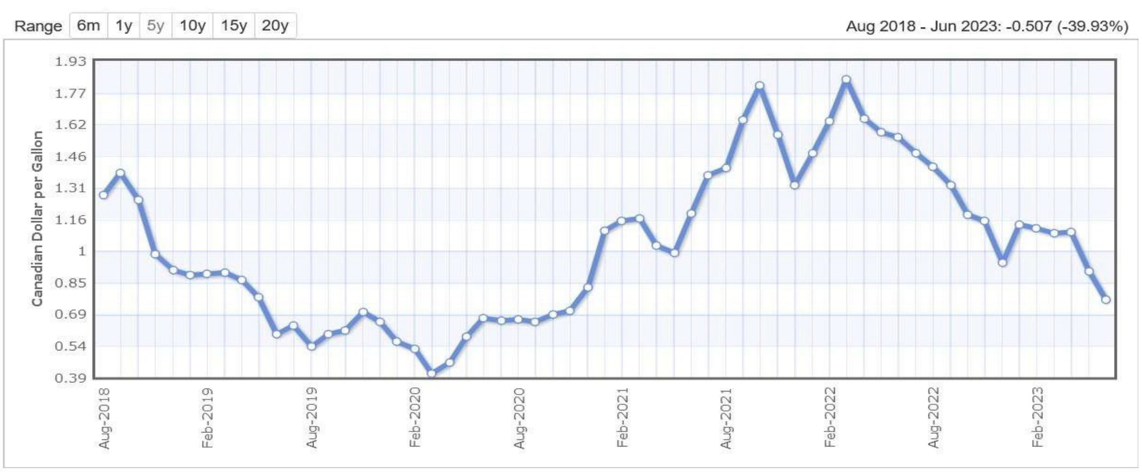
[12] Note that the PBO reports farm fuel costs as a percentage of revenue, whereas the government rebates on the basis of total expenditures. Assuming revenues > costs, the comparison is sufficient for the purposes at hand.

the Agricultural Clean Technology program in 2021[13]. The ACT program has supported investments in more efficient grain dryers[14].

There are ever more examples of farms that are doing great work to reduce their fossil fuel consumption and to improve energy efficiency.

For instance, a poultry farm in Linden Alberta has a 175 kW rooftop system. In another case, a poultry barn, built with a high efficiency thermal envelope, reduced energy consumption by 83% per ton of eggs[15]. For the past six years, a 5,000 acre farm operated by the Krischenman family has been using solar to for most of their power needs, including powering the seed cleaner and aeration fans[16]. Researchers at University of Guelph have published research showing that ground source heat pumps could reduce and in some cases eliminate the need for supplemental heating of commercial greenhouses[17]. University of Guelph Engineering Professor Lubitz is investigating the use of heat pumps for grain drying in collaboration with Greg Dineen of Dineen Farms[18].

The fact that fossil fuel prices are set on international markets and are so volatile (for example, see the figure below, showing propane prices) creates uncertainty in the agricultural sector. As a result, it would be beneficial for the industry to move away from fossil fuels by improving energy efficiency and switching to clean electricity, which has a more predictable and affordable pricing system.



Description: Mont Belvieu, TX Propane Spot Price FOB

Unit: Canadian Dollar per Gallon

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13 The ACT Program is a seven-year, $495.7 million initiative, comprised of two funding streams, with the Adoption Stream ending on March 31, 2026, and the Research and Innovation Stream ending on March 31, 2028.

14 https://www.canada.ca/en/agriculture-agri-food/news/2023/03/government-of-canada-supports-more- efficient-grain-drying-technologies-across-canada.html

15 https://www.canadianpoultrymag.com/sun-rising-on-solar-powered-poultry-barns/

16 https://www.manitobacooperator.ca/news-opinion/news/the-sun-is-just-rising-on-solar-on-the-farm/

17 https://link.springer.com/article/10.1007/s42853-023-00188-8

18 https://gfo.ca/research-projects/c2022ut03/

Creating a new fossil fuel subsidy goes against Canada's commitments

As I explained in more detail before the commons committee, Bill C-234 would entail creating a new fossil fuel subsidy. This is inconsistent with Canada's commitment to eliminate fossil fuel subsidies by 2023. The PBO's updated cost estimates for Bill C-234 implies an effective fossil fuel subsidy in the eight backstop provinces, totaling $76 million to $162 million annually by 2030/2031[19]. Those producers who done the least to reduce emissions will get proportionally more subsidy, penalizing those who have invested in energy efficiency and fuel switching.

We are disappointed to see analysis by the PBO being deliberately misinterpreted and discussed without consideration of Bill C-8, which now returns the fuel levy charges to farmers[20].

Finally, the sunset clause offers little comfort, since as the exemption expires in eight years, it would cause a sudden spike in the cost of fuels faced by farmers, leaving them ill-prepared and creating pressure on parliament to extent this exemption and hence this subsidy. And indeed, the legislation as drafted contemplates a postponement of that sunset clause by simple resolution in both houses[21].

Conclusion

The David Suzuki Foundation urges the senate committee to recommend against passage of this Bill. This year, key indicators show heating accelerating and that our climate system is reaching thresholds that put human wellbeing and prosperity in danger[22].[22] Parliamentarians must avoid creating a new fossil fuel subsidy. Instead, they should turn their attention to other ways in which the federal government can support farmers to accelerate their transition to net-zero. Beyond the provisions implemented through Bill C-8 for returning to farms in backstop

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[19] https://www.pbo-dpb.ca/en/additional-analyses--analyses-complementaires/BLOG-2324-002-M--bill-c-234- extension-exemption-qualifying-farming-fuel-marketable-natural-gas-propane-updated-cost-e--projet-loi-c-234- elargissement-exemption-qui-applique-combustible-agricole-admissible-inclure-gaz-na#antn_4
Like the Canadian Climate Institute and Clean Prosperity and others, we have many concerns with the way that the PBO has been estimating the costs to people living in Canada of the carbon levy and the Clean Fuel Regulations, namely counting costs but not benefits, assuming that people do not react to the price signal and that technologies do not improve, failing to consider the cost of not acting, and not counting the cost of alternative policies that would be needed if carbon pricing were removed. Key passage here: "But the PBO assesses the broader "economic costs" in a misleading way. It fails to consider economic benefits of carbon pricing and the costs of climate inaction, both in terms of stabilizing the climate and competing in a global economy racing to net zero. Those broader factors are a huge part of the actual cost-benefit analysis around carbon pricing." https://climateinstitute.ca/pbos-latest-carbon-pricing-report-has-big-flaws-here-are-the-facts/ See also https://cleanprosperity.ca/new-pbo-report-presents-misleading-picture-of-carbon-pricing/ "The PBO report released today doesn't attempt to show the economic benefits of climate action. Instead, it models an implausible scenario in which carbon pricing exists in the absence of other climate policies, and in the absence of investment in decarbonization."
[20] https://www.nantonnews.com/opinion/columnists/carbon-tax-driving-up-the-cost-of-food-hurting-canadian- farmers-and-families-say-conservative-mps
[21] See 2(1) and (3).
[22] https://www.theclimatebrink.com/p/visualizing-a-summer-of-extremes

provinces the proceeds from pollution pricing applied to on farm use of fossil fuels, there are other solutions that merit your attention. For instance, we suggest the committee should investigate the matter of how to ensure agricultural operations across the country can improve energy efficiency and access to a sufficient supply of affordable, zero emissions electricity to enable fuel switching can be improved.

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);

(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.)