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CARBON TAX

DESCRIPTION AND IMPLICATIONS

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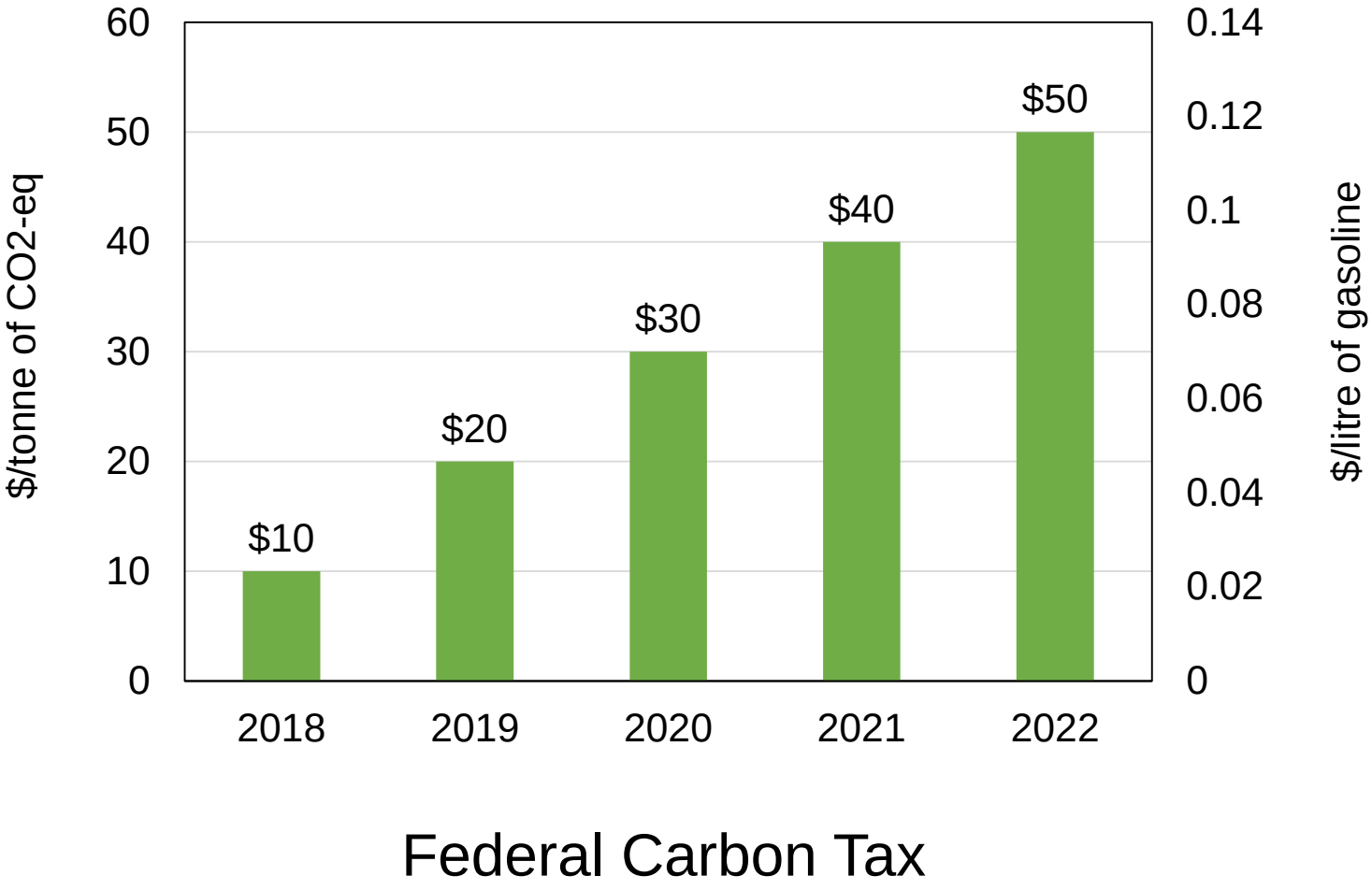
Federal Carbon Policy

- Beginning in 2018, Canada will implement a *minimum* carbon price of

  $10 per tonne of CO_2-equivalent (CO_2-eq)

- In terms of gasoline, this is equivalent to a tax of approximately

  $0.02 per litre



Federal Carbon Tax

Federal Carbon Policy

DETAILS

- Provinces choose between cap-and-trade or a carbon tax
- Tax revenues remain in the *province of origin*
  - Revenue-neutral tax scheme
- Provinces have the final say on tax revenue distribution

Policy Uncertainty

- Will agriculture be exempt from the carbon tax? If so, which inputs?

From the *Pan-Canadian Approach to Pricing Carbon Pollution*
news.gc.ca/web/article-en.do?nid=1132169

"Common scope: Pricing will be based on GHG emissions and applied to a common and broad set of sources to ensure effectiveness and minimize interprovincial competitiveness impacts. *At a minimum, carbon pricing should apply to substantively the same sources as British Columbia's carbon tax*."

Policy Uncertainty

- BC included agriculture in 2008, but exempted the sector from carbon fuel taxes in 2014
  - *Gas and diesel only*

- Even with a fuel tax exemption, several inputs will see indirect price increases from the carbon tax

- Possible exemptions for "trade-exposed" sectors:

"Carbon pricing policies should minimize competitiveness impacts and carbon leakage, particularly for trade-exposed sectors"

—Pan-Canadian Approach to Pricing Carbon Pollution

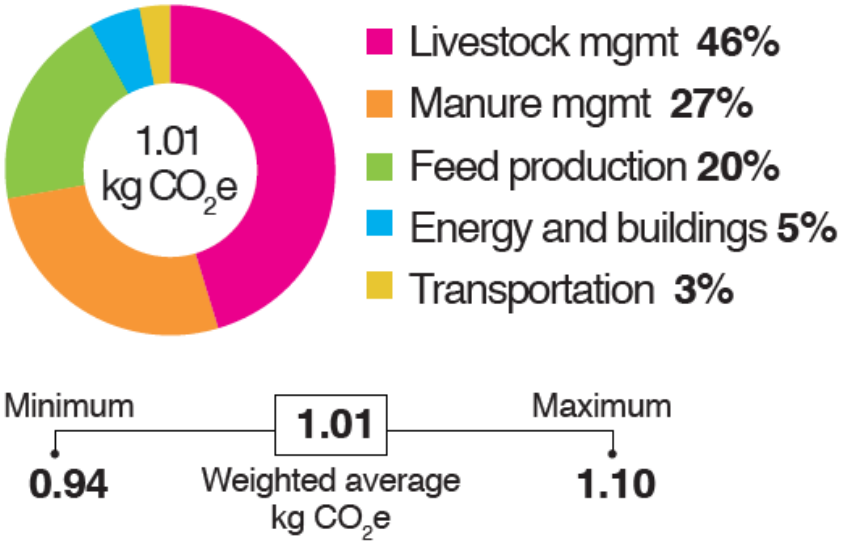
Biological Processes

- Will the tax (eventually) be applied to biological processes?
- **Primary** concern for the dairy industry
- Carbon dioxide emitted from transportation pales in comparison to the CO_2-eq from other sources

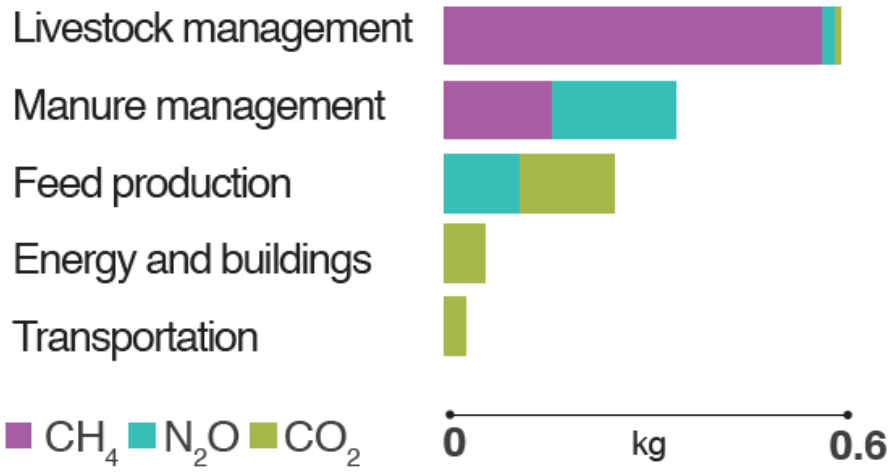
The environmental profile of a kilogram (0.97 litre) of milk

Carbon footprint

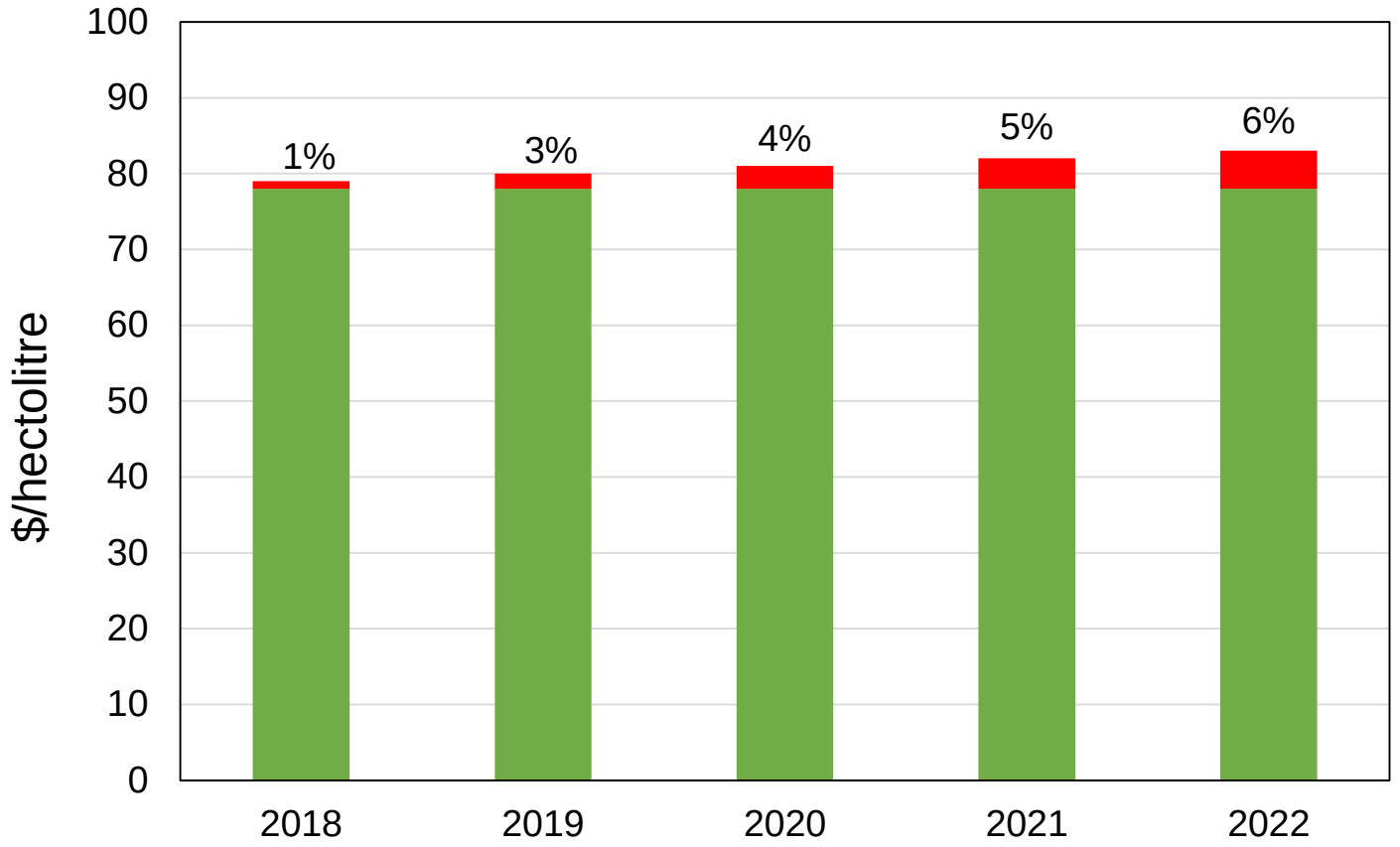
Contribution of each life cycle stage



Breakdown of GHG emissions



Credit: Socioeconomic and Environmental Life Cycle Assessment (LCA) of Canadian Milk Production, commissioned by the Dairy Farmers of Canada

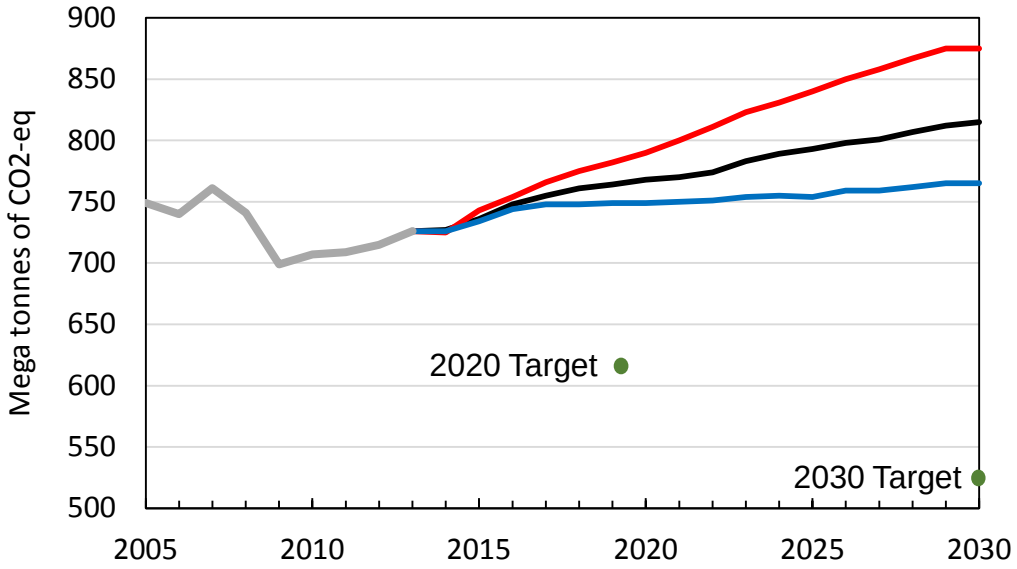


Cost of Production: Biological Processes Carbon Tax

Sources: CDC 2015 Cost of Production, Dairy Farmers of Canada LCA

Biological Processes

A biological processes carbon tax for the dairy industry may be unlikely at first, but consider the Canadian goal for 2030:



Source: Environment and Climate Change Canada

Enteric fermentation and manure management represented 4.5% of Canadian emissions in 2014

— Environment and Climate Change Canada National Inventory Report 1990-2014

Short-term Impacts

- Moderate input price increases
- Change in output price to partially reflect COP increase
- Feed and energy inefficient farmers will see comparatively lower margins
- Capital assets for improving feed and energy efficiency may now be cost-effective
- Need for carbon accounting at the farm level—*opportunities for emissions savings?*

Trade

- One of the biggest concerns of the carbon tax debate, especially for trade-exposed sectors
- Impacts on export and import competitiveness are likely

AFTER 2020

Carbon price exceeding \$30/tonne CO_2-eq combined with the WTO *Nairobi Declaration*, which eliminates agricultural export subsidies

Need for advance planning

Preparation

- Advocate for tax-revenues to return to the originating sector
- Reconsider carbon-reducing capital investment
- Assess farm-level carbon emissions and potential areas for improvement
- Invest in research to reduce uncertainty about potential sector-level impacts

Thank you for your time

Questions?

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