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Report Highlights:

Canadian grain and oilseed producers are closely monitoring several recent developments related to carbon usage that will impact their cost of doing business. These developments include increased fuel taxes; exemptions and rebates on fuel taxes; and, the publication of Canada's carbon offset credit regulations.

Canada's Carbon Economy and the Impact on Grain and Oilseeds

Canadian grain and oilseed producers are closely monitoring several recent developments related to carbon usage that will impact their cost of doing business:

- In April 2021, Canada's fuel tax will increase to $40 CDN per ton carbon dioxide equivalent (CO_2e) from $30 CDN per ton;
- In February 2021, Bill C-206 was passed to extend the exemption on fuel taxes for select farming fuels;
- The federal government is expected to announce tax rebates for farmer; and,
- In March 2021, the government released a framework for the Greenhouse Gas Offset Credit System.

Increased Fuel Tax

Canadian grain and oilseed producer groups have criticized the application of a fuel tax on grain drying and operating machinery since its introduction in January 2019, stating that the tax increases business costs and reduces competitiveness. In April 2021, Canada's fuel tax will increase to $40 CDN per ton carbon dioxide equivalent (CO_2e) from $30 CDN per ton.

Fuel taxes associated with grain drying vary by crop type, fuel type, environmental factors such as moisture levels, and other factors. However, the review of cost estimates, below, is intended to give a rough idea of the burden the current fuel tax structure places on grain and oilseed producers, according to producer associations and others.

Canadian Federation of Independent Business survey results, released in February 2020, show that producers and agribusinesses paid, on average, $14,000 CDN in the first year the tax applied to them (April 1, 2019 to March 31, 2020) in direct and indirect fuel taxes, based on their own estimates.

The Agricultural Producers Association of Saskatchewan reported that for a 5,000-acre grain farm in Saskatchewan, the fuel tax will cost an additional $8,000 to $10,000 CDN per year. When the fuel tax increases to $50 CDN/ton CO_2e in 2022, this bill will go up to $13,000 to $17,000 CDN for the same farm – the equivalent of a 12 percent decrease in net income.

Keystone Agricultural Producers stated in January 2020 their estimate that a typical farmer in Manitoba growing 500 acres of corn spent approximately $14,145 CDN on fuel for drying grain, and the fuel tax added $1,722 CDN to their fuel bill.

Grain Farmers of Ontario estimate the cost of the fuel tax is $14 CDN per acre if you take into account transportation, inputs, and more.

At the House Agriculture Committee on March 12, 2020, Minister John Barlow cited Canadian National Railway and Canadian Pacific Railway stating said that the fuel tax they expect to pass on to producers in 2022, at $50 CDN per ton, would total $28 million CDN.

More cost studies are expected to be published by industry in the coming months.

Background: Greenhouse Gas Pollution Pricing Act

The Greenhouse Gas Pollution Pricing Act established a federal fuel tax beginning in January 2019. It is currently at $30 CDN per ton C02e in fuels and applies to any province or territory of Canada that has not implemented a compliant carbon pricing regime. The fuel taxes set out in this law started at $20 CDN per ton in 2019 and will rise by C$10 per ton annually to C$50 per ton CO2e in 2022. In December 2020, the federal government announced the fuel tax will continue to gradually rise to $170 CDN per ton CO2e.

Canada's main crop-growing provinces of Saskatchewan, Alberta, Manitoba and Ontario are subject to federal fuel charges and applicable rates, which vary by fossil fuel type. Each of these provinces are challenging the federal fuel taxation framework in court. Rulings are expected at some point this year.

For more information on federal and provincial fuel taxation regulations and provinces' court challenges, see FAS/Ottawa's 2020 Annual Biofuels report.

Bill C-206

Bill C-206 is an act to amend the Greenhouse Gas (GHG) Pollution Pricing Act by extending the exemption on fuel taxes for qualifying farming fuel to include not only marked fuel (marked fuel was exempt prior to the Bill being passed), but also marketable natural gas and propane. The private members' Bill was passed at second reading on February 25, 2021.

However, the Bill does not provide relief for the fuel costs of grain drying, because the technical wording of eligible activities and machinery in the GHG Pollution Pricing Act excludes drying, and the Bill does not add grain drying as an eligible criterion.

All exempt fuel must be used in an eligible farming activity in machinery and equipment that is approved for use on a farm. As stated in the Act:

> Eligible farming activity means:
>
> > (a) the operation of eligible farming machinery on a farm for the purposes of farming;
> >
> > (b) the operation of eligible farming machinery for the purposes of going from a location at a farm to another location at a farm; or
> >
> > (c) a prescribed activity.
>
> Eligible farming machinery means property that is primarily used for the purposes of farming and that is:
>
> > (a) a farm truck or a tractor;

(b) a vehicle not licensed to be operated on a public road;

(c) an industrial machine or a stationary or portable engine; or

(d) prescribed property.

But does not include:

(e) a vehicle that is an automobile as defined in subsection 248(1) of the Income Tax Act;

(f) property that is used for the purpose of providing heating or cooling to a building or similar structure; or

(g) prescribed property.

Prior to the passing of Bill C-206, only marked fuel was exempt from taxation under the Greenhouse Gas Pollution Pricing Act. Marked fuel (or 'dyed fuel') is diesel or gasoline fuel colored to a concentration of 14 parts per million of red dye (eg. 'purple gas').

Tax Rebates for Grain Drying

The federal government plans to introduce rebates for on-farm fuel use such as grain drying, according to the Minister of Agriculture and Agri-Food, Marie-Claude Bibeau, and Minister of Environment and Climate Change, Jonathan Wilkinson, as reported by media.[1] It is not clear when details of the rebates will be announced or what the mechanism for the rebates will be.

Greenhouse Gas Offset Credit System

In March, the government published their Greenhouse Gas Offset Credit System draft regulations. Details on how farms could generate credits are still being developed.

Attachments:

No Attachments.

[1] Federal ministers promise carbon tax rebates as Conservative bill to exempt on-farm propane and natural gas passes second reading