COMMENT/FEEDBACK

The case for a carbon tax (and refund system)

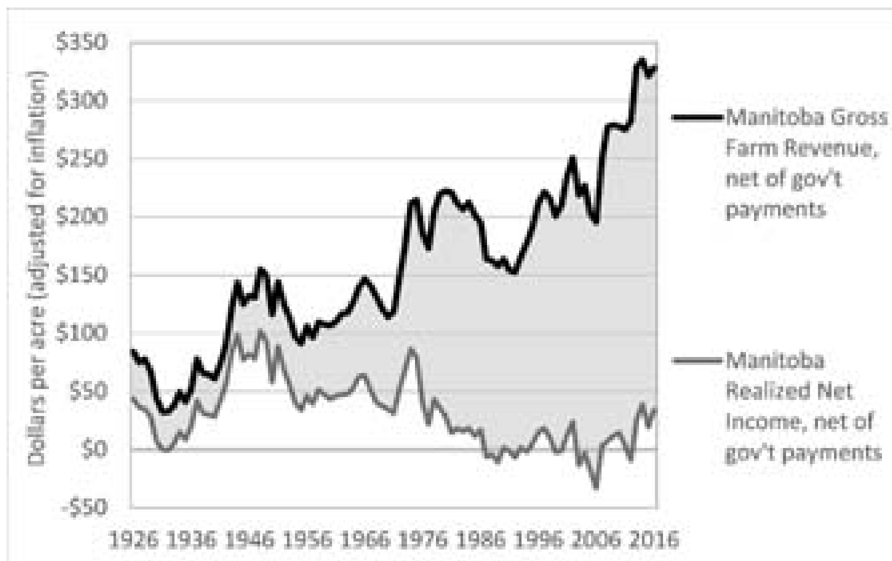
Only with a well-structured refund mechanism will a carbon tax be fair to farmers

BY DARRIN QUALMAN
Co-operator contributor

Carbon taxes are controversial. Especially contentious is the question of whether such taxes should be applied to farmers. Before farmers make up their minds about carbon taxes, it's important that they encounter a clear explanation of how a well-structured agricultural carbon tax could work, and how such a tax could help increase net farm incomes. What follows is such an explanation.

A carbon tax is coming. Canada has pledged to cut greenhouse gas (GHG) emissions by 30 per cent by 2030. Ottawa has instructed all provinces to implement a price on carbon, and this probably means a tax. Manitoba's agricultural sector is responsible for about 40 per cent of the province's total emissions, so cutting emissions overall means cutting emissions from agriculture. Because a carbon tax is almost certain, farmers should work with governments to structure a tax in a way that not only reduces on-farm emissions, but increases net farm income. How can this be done?

First, such a tax must embody the realities of the farm sector, especially the imbalance in market power between farmers and input manufacturers. Because of this imbalance, farmers will be forced to pay nearly all the carbon taxes in the food system, including taxes levied on the natural gas to make fertilizer and the energy to make steel. The carbon taxes levied on farm input makers will be passed forward to farmers in the form of higher input costs, and the taxes levied on truckers, railways, processors, etc. will be passed back to farmers in the form of lower farm gate prices. Farmers will pay it all. An exemption for farm fuel use will be of little help. Rather, a well-structured agricultural carbon tax must include a comprehensive refund mechanism for all carbon tax dollars collected in the agri-food chain. Such a refund system is at the core of the proposal detailed here.



GRAPHIC: SUPPLIED

Another consideration is that carbon tax rates must rise to high levels. Proposed tax rates — $10 to $50 per tonne — work out to just three to 13 cents per litre of diesel fuel or gasoline. No one will make large changes or large investments to avoid relatively small costs. To change behaviours and help achieve our emission-reduction targets, carbon taxes must rise well above $100 per tonne.

The third reason why all carbon taxes paid by farmers must come back to them is that agriculture is export dependent. Farmers cannot shoulder large new taxes that international competitors may not face.

Therefore, because farmers will pay all the carbon taxes in the agri-food system, those taxes must rise to high levels, and farmers here must not be disadvantaged relative to competitors, 100 per cent of carbon taxes collected — at both the farm level and the input-manufacture level — must be refunded to farmers. Such refunds would not, however, be based on the amounts each farmer paid. Rather, refunds would be spread proportionately across the farming sector, perhaps paid back to farmers on the basis of gross margins.

Farmers would pay taxes based on the carbon emissions related to their operations, but receive carbon-tax refunds based on the relative size and production of their farms. Farmers with below-average emissions for an operation of their size would come out ahead, while farms with above-average emissions would pay some net taxes. Overall, though, all the money farmers (and input makers and others) pay in would come back to farmers. An independent auditor could certify that this occurs.

There's one more reason farmers shouldn't reject a carbon tax: If they do, it will be impossible to successfully argue for carbon-credit payments for improved grazing or cropping techniques. Farmers won't get paid for sequestration if they refuse to pay for excessive emissions.

There's also the connection between agricultural emissions, input use, and farm income. First, consider this: farming does not produce GHG emissions — farm inputs produce emissions. Humans have practised agriculture for about 10,000 years. For 9,900 of those years, farming produced zero net emissions. It is only in the past century, as farmers were encouraged to multiply their use of fuels, fertilizers, and other inputs that emissions became an issue. The GHGs coming out of Manitoba farms is a direct function of the quantity of fossil fuel-intensive inputs agribusiness pushes in. Thus, emission-reduction efforts must be input-reduction efforts.

We're not going back to horses, and only a portion of our farms can be organic. Nonetheless, any low-emission food system will be a low-input food system. And reducing input use can increase net incomes.

The graph shows per-acre Manitoba farm income from 1926 to 2016. The black, upward-trending line is gross farm revenue. The bottom, grey line is net farm income. All figures are adjusted for inflation, with government payments subtracted out. Note how gross revenue climbs but net income slumps toward zero, and recovers only modestly in recent years.

Most important, note the grey-shaded area expanding between the two lines. This represents Manitoba farmers' expenses: the amount they spent on farm inputs. Between 1987 and 2016, input manufacturers captured 98 per cent of Manitoba farmers' revenues. Over that same period, half the farmers in Manitoba were pushed off the land. The farm income crisis is the result of wealth extraction by powerful agribusiness corporations. Farmers have two problems: high emissions and high costs. Curbing input use can help solve both. A carbon tax-and-refund system can help reduce emissions, increase incomes, and save family farms.

Darrin Qualman is the former National Farmers' Union director of research. He is currently working with the Manitoba NFI to develop a greenhouse gas-reduction plan. The views here are his own, and more of his analysis can be found at www.darrinqualman.com.

Government support for agricultural innovation vital

With the agriculture policy framework up for renewal, 2018 promises to be a critical year for the future of research

BY MARIE VERSTEEG
CFFO

The federal government has been applauded by leaders in agriculture, research, and agribusiness up and down the value chain for the promises contained in the 2017 federal budget, released just over two weeks ago.

The government's goal is to increase Canada's agri-food exports to at least $75 billion annually by 2025. With such an ambitious target, it's encouraging to see that funds will be specifically directed toward innovation. The government has earmarked $70 million over six years to support agricultural research, innovation, and discovery science. This is up from last year's commitment of $30 million over six years toward ag research.

In our increasingly globalized world, the competitive edge is razor thin. Future commitments on the part of both the federal and provincial government toward innovation will be crucial to the growth of the sector.

Existing funding agreements already illustrate the benefits of injecting resources into research and innovation. Growing Forward 2, for example, has provided the sector with significant growth opportunities.

Take the experience of Nature Fresh Farms in Leamington, Ontario. Through Growing Forward 2 funding, this greenhouse operation has developed supplemental lighting systems that enable wintertime pepper harvests.

Ordinarily, such production would be impossible due to a lack of sunlight during Ontario winters. Research like this benefits the whole sector, increasing farm profitability, food security, and operational efficiencies. It also benefits the consumer by putting Canadian produce on Canadian plates year round.

Looking forward, 2018 will be an important year for the future of ag research. We look to the upcoming new policy framework for the ag sector, which will shape federal-provincial funding priorities for the future. Fortunately, one of its major objectives is the goal of "enhancing competitiveness and strengthening competitive advantages by advancing science and innovation capacity and encouraging the adoption of products, practices and processes."

Let's hope the federal budget's current show of support for innovation in agriculture will positively influence the outcome of these future agreements. Continued research funding is vital to the flourishing of the agriculture sector and government investments in innovation will lead the way to greater success in the industry.

CFFO hopes to see both federal and provincial governments across the country continue to have a strong role in research and innovation within the agriculture sector. But no matter how significant government contributions are in this direction, industry and producer organizations still have a key role to play in seeking innovation through research and partnerships as well.

Marie Versteeg is manager of board and committee services for the Christian Farmers Federation of Ontario.

TAX NOT REGULATE

National Post columnist says a carbon tax is most efficient » **PG 18**

SOILED UNDIES

A lighthearted experiment shows the power of soil » **PG 20**

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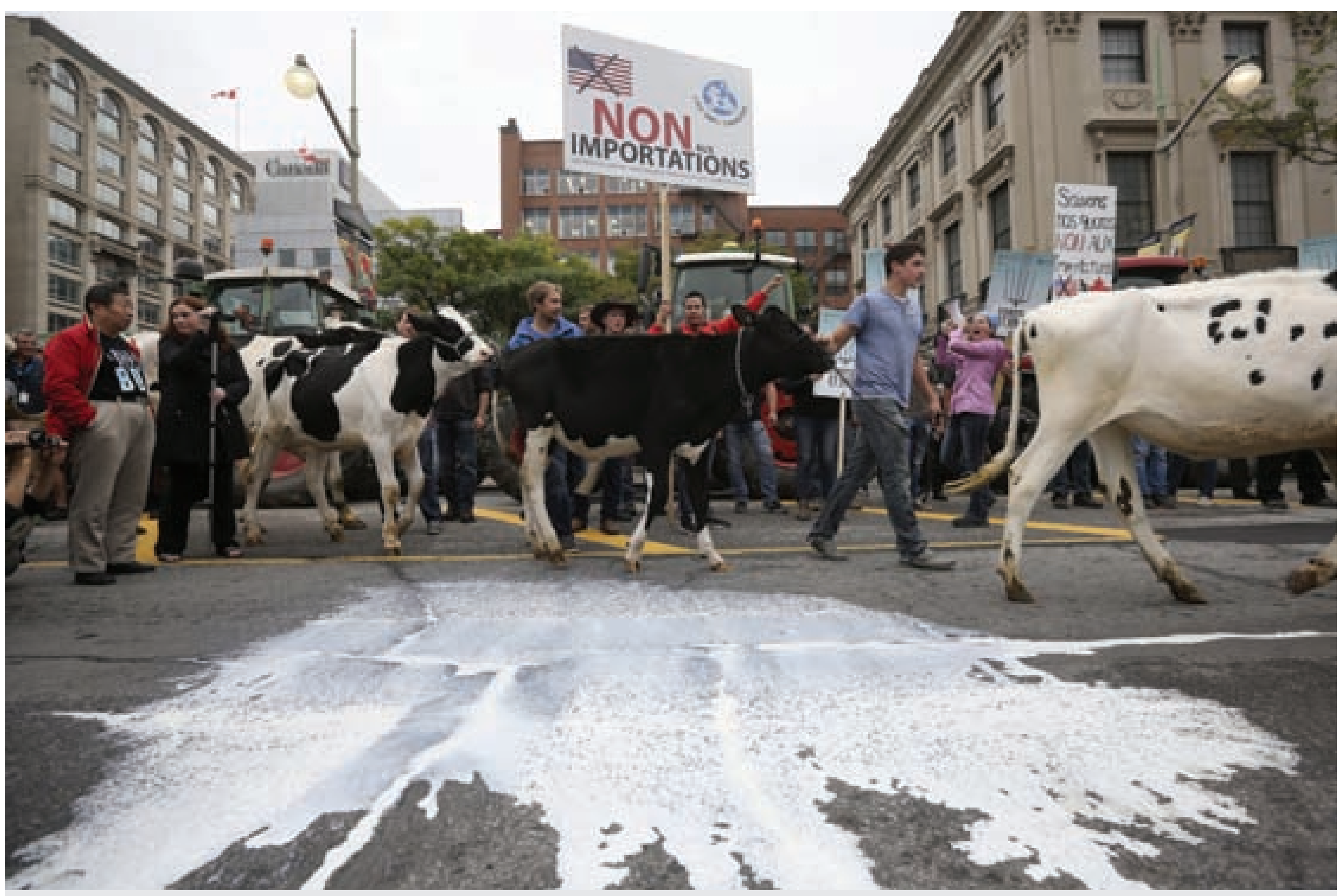
NAFTA negotiations key for farmers, say commentators

In separate speeches Andrew Coyne and Sylvain Charlebois predicted while supply management is under the gun, there's more at stake



Upcoming NAFTA negotiations could spill a lot of milk for dairy producers — and that's just the beginning according to two well-known commentators.
PHOTO: REUTERS / CHRIS WATTIE

BY ALLAN DAWSON
Co-operator staff / Calgary

A U.S.-led effort to renegotiate NAFTA could see supply management scrapped, but that's just the beginning, say two Canadian commentators.

Speaking separately at the Canadian Global Crops Symposium April 12, the *National Post's* Andrew Coyne and Dalhousie University's Sylvain Charlebois both said the North American Free Trade Agreement could provide the pretext for major changes in agriculture and the economy at large. NAFTA, which includes Mexico, took effect in 1994, superseding the Canada-U.S. Trade Agreement of 1988.

"(NAFTA) is probably the biggest single, short-term issue facing this (Canadian) government," Coyne told the conference of more than 200 grain industry members.

"If the Americans demand we get rid of supply management, I for one will not be shedding many tears."

Sylvain Charlebois expects that's exactly what the Americans will do.

"They know right now supply management is under a lot of stress," Charlebois, Dalhousie University's dean of the faculty of management said in his end-of-conference address.

"Supply management now is a mess just because of the tensions going on around NAFTA, around protein dairy coming into the Canadian market, CETA (European Union trade pact) is creating a breach in the quota system," he said.

"There's no direction, there's no strategy and the Americans know that. They want to take advantage of that I think.

"NAFTA will become a major catalyst for change."

When running for president, Donald Trump threatened to "tear up" NAFTA if a better deal for the U.S. isn't reached. After the election Trump said the trade agreement would only be "tweaked." But depending on who is speaking in the Trump administration there could be a "fundamental overhaul," Coyne said.

Charlebois says it's the latter, based on U.S. Commerce Secretary Wilbur Ross's comments last week.

"We are starting to see that NAFTA 2.0 is not just going to be a change on the cover, there is going to be more," he said. "It is going to be more substantive."

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Provincial budget makes no cuts to municipal funding

More flexibility in how grant monies can be allocated welcomed, says AMM president

BY LORRAINE STEVENSON
Co-operator staff

Municipal leaders are relieved there will be no direct cuts coming to local government funding in 2017, says the head of the province's municipal lobby.

Provincial funding for municipalities will remain at the same level in 2017 as it was last year, said Association of Manitoba Municipalities (AMM) president Chris Goertzen shortly after hearing details of the provincial budget last week.

"There's a few positives we can take out of this," he said. "Obviously they have a fiscal challenge in front of them, and they aren't balancing the books on the backs of municipalities, which we think is favourable."

Provincial Finance Minister Cameron Friesen laid out a 2017-18 budget April 11 with an overall $840-million deficit, based on a four per cent increase in revenues at $16.1 billion and a 3.1 per cent increase in expenditures at $17.06 billion compared to its 2016-17 budget.

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