

February 20, 2020

The Honourable Marie-Claude Bibeau  
Minister of Agriculture and Agri-Food  
House of Commons  
Ottawa, Ontario K1A 0A6

**Subject: CFIB response to your request for more data and the impact of the federal carbon tax on the agriculture sector**

**Dear Minister Bibeau:**

On behalf of over 110,000 small- and medium-sized enterprises (SMEs), including 7,200 agri-business owners, that are members of the Canadian Federation of Independent Business (CFIB), we are writing to provide our agriculture members' views on the carbon tax and the significant negative impact it has had on their operations.

In recent public comments, you requested that the agriculture sector and provincial agriculture ministers provide you with more data and information on the impact of the carbon tax. We are pleased to provide you with new survey data, which reveals the significant negative impact of the federal carbon tax on farmers' bottom lines. Given the challenging harvest last year, ongoing trade disputes, and the threat of a prolonged rail disruption, we urge you to address farmers' serious concerns about the carbon tax and act on our recommendations to exempt natural gas, propane, and aviation fuel used for farming.

As you know, CFIB is a not-for-profit, non-partisan, business advocacy organization that brings the views of small business owners to all levels of government across Canada. CFIB is funded entirely by our membership and takes direction from them through regular surveys on a variety of issues.

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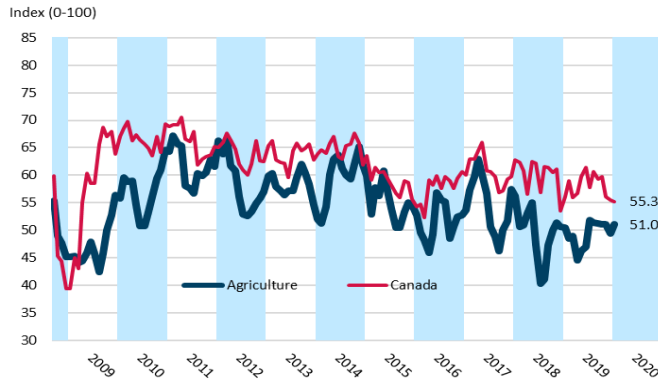
**CFIB's Agriculture Business Barometer: optimism remains weak in the Agriculture sector**

CFIB regularly reports small business owners' confidence and outlook on the economy through its Monthly Business Barometer®. The Barometer® is used by reputable financial institutions in Canada including Bloomberg, the Bank of Canada and Scotiabank. Tracked against GDP, the Barometer® index closely reflects what is currently happening in the economy. Index levels normally range between 65-70 when the economy is growing at its potential.

In CFIB's most recent monthly Agriculture Business Barometer®, it is clear that **fuel and energy costs, taxes and regulations, recent trade challenges** and a **delayed and difficult harvest** over the past year have been taking a toll on farmers' optimism. In fact, CFIB's Monthly Business Barometer® Index for the agriculture sector sits at **51.0** and trails the average of all other sectors by 4.3 points (see Figure 1). We also worry the threat of a prolonged rail disruption will only cause further uncertainty.

Figure 1

**CFIB Monthly Business Barometer Index – Agriculture**



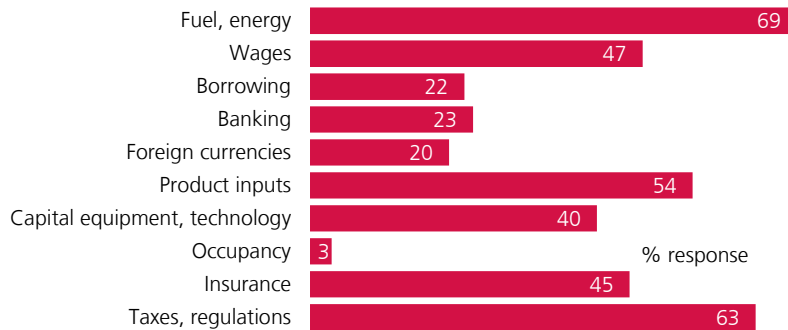
Source: CFIB Monthly Business Barometer, January 2020, agriculture sector sub-index data- 3-month moving average.

**Business Barometer: Major Cost Constraints – Fuel, energy costs top concern**

Included in the Monthly Business Barometer® survey questions, agri-business owners are asked to identify the top cost constraints for their business. It is important to note that **fuel and energy costs were cited by 69 per cent of respondents** (see Figure 2). **Sixty-three per cent said taxes and regulations** and **54 per cent said product inputs** are a major cost constraint.

Figure 2

**CFIB Business Barometer Index: Agriculture- Major cost constraints**



Source: CFIB Monthly Business Barometer, January 2020, agriculture sector sub-index data, 12-month moving averages.

Farmers who rely on natural gas and propane to heat poultry or dairy facilities or dry their grain are facing mounting costs from the carbon tax – despite these activities being defined as “eligible farming activities” under the *Income Tax Act*. With the extremely challenging harvest conditions in many parts of the country this past year, many farmers were forced to dry their grain. As you are aware, many millions of acres are still out in the field and will be harvested this spring. Therefore, the costs to dry grain will continue to mount for many farmers well into 2020.

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## Request for more data

As you have mentioned in public comments, “agriculture is touched differently than others”. You also mentioned that you “have to build a case to demonstrate why it would be justified to provide a rebate” (Source: [www.Farmtario.com](http://www.Farmtario.com)) and would like to see more data from the farming community on how the federal carbon tax is impacting them. In response, CFIB has surveyed our agriculture members in Saskatchewan, Manitoba and Ontario where the federal carbon tax has been applied since April 1, 2019. We are pleased to share our compelling new data with you.

The CFIB 2020 Energy and Environment online survey was conducted from January 16 to February 18, 2020 and is based on a sample of 4,969 small business owners from Canada. For comparison purposes, a probability sample with the same number of respondents would have a margin of error of plus or minus 1.4 per cent, 19 times out of 20.

The questions and results referenced in this letter related to the impact of the carbon tax on the agriculture sector are based on a sample of 237 agri-business respondents in Saskatchewan, Manitoba and Ontario. For comparison purposes, a probability sample with the same number of respondents would have a margin of error of plus or minus 6.4 per cent, 19 times out of 20.

We hope this direct feedback from farmers will help you better understand the negative impact of the carbon tax on the agriculture sector. We urge you to expand much needed carbon tax exemptions for natural gas, propane and aviation fuel used for farming activities.

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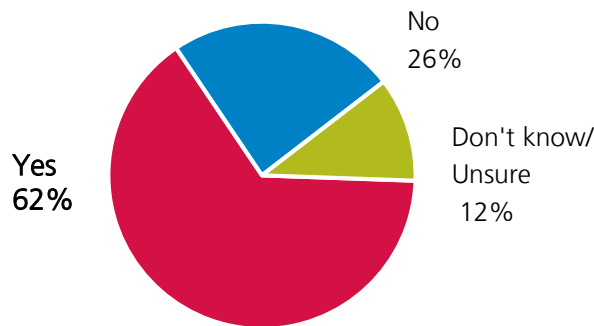
## Trade Disputes

It is important to remind you that trade disputes with China, India and other major agricultural markets have had a negative impact on the agriculture sector and created uncertainty for many farmers. In fact, **almost two-thirds (62 per cent)** of agri-business respondents said their business has been impacted by international trade disputes and uncertainty in the past year (see Figure 3). When analyzing the data by sectors, **88 per cent of farmers in the field crop and combination farm sector** and **84 per cent of livestock producers** say they have faced the most significant pressure from trade disputes in the past year.

It is clear that farmers cannot afford any additional costs from a carbon tax when they have already faced many pressures from market access issues and trade challenges.

Figure 3

### Has your business been affected by international trade disputes and uncertainty in the past year?



Source: CFIB, National Energy and Environment Survey, Agriculture responses, Canada n=401, February 2020.

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### Impact of trade disputes on farmers

*“We are a farm business. The trade restrictions with India, China, and Saudi Arabia have impacted commodity prices and ability to sell what we produce.” Farm Member, Alberta*

*“Due to trade disputes, our products’ prices on the international market have dropped drastically and are now much more difficult to move. This brings greater uncertainty to the business itself as slower moving products at lower prices directly affects our operating cash flow, as well as affecting the short- and long-term survivability of our operation.” Farm Member, Saskatchewan*

*“The loss of canola access to China has cost my business about \$40,000. As a pulse grower, I have also seen a 25 per cent reduction in price and sales of field peas to India.” Farm Member, Manitoba*

*“As a swine farmer my business was affected by the trade dispute with China.” Farm member, Ontario*

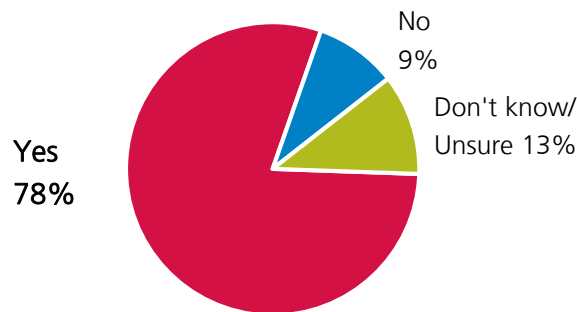
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### Farmers already taking steps to protect the environment

We know that a strong majority of our farm members have already taken steps to protect the environment – their livelihood depends on it. In fact, **78 per cent of farmers** have taken action in the last several years to lessen their environmental impact (see Figure 4). When analyzing the data by sectors, we found **85 per cent of the field crop and combination farm sector**, **80 per cent in the fruit, vegetables and horticultural sector** and **77 per cent in the livestock sector** have all taken action to lessen their farm’s environmental impact.

Figure 4

**Has your business taken action in the last several years to lessen its environmental impact?**



Source: CFIB, National Energy and Environment Survey, Agriculture responses, Canada n=371, February 2020.

Many farmers say they have purchased newer and better equipment, adopted minimum tillage practices, used technology to maximize efficiency and reduce inputs, maintained and protected wildlife habitat, increased manure management, protected waterways, recycled more farm material, and upgraded barn and storage facilities with more energy efficient technology.

A report released in September 2019 by the Canadian Agri-Food Policy Institute (CAPI) said “Canadian agricultural producers have improved their environmental performance, aided by a willingness to adopt new technologies and Best Management Practices (BMPs) along with new regulations, policies and programs, and investment in research and development.” The report also states “the Canadian agriculture sector has made significant progress in making the soils in crop and animal production a net carbon sink, as well as reducing emission intensity of animal agriculture.”

The study by CAPI says significant progress has been made in recent years in many agriculture sectors. For example, “Canadian beef production has become much less emissions intensive as a result of new genetics, increased feed efficiencies and better pasture management. Canada is now one of the lowest emitters for animal protein, particularly beef, in the world.” In the crop production sector on the Prairies “where zero- and low-till practices have taken off, net GHG emissions have declined dramatically since 1996, contributing to substantial carbon storage and sequestration in Canadian soils.”

It is important that policy makers recognize this substantial progress in the agriculture sector and recognize the sector as part of the solution, not part of the problem. By imposing costly carbon taxes on the sector without a proper impact assessment on the industry, this has stymied many farm businesses’ viability, profitability, competitiveness and ability to invest in new technology. CAPI also states that the carbon tax and other climate change policies could place Canadian agriculture “at a cost disadvantage, especially relative to its major competitors, such as the United States.”

## Farmers' views on environmental protection

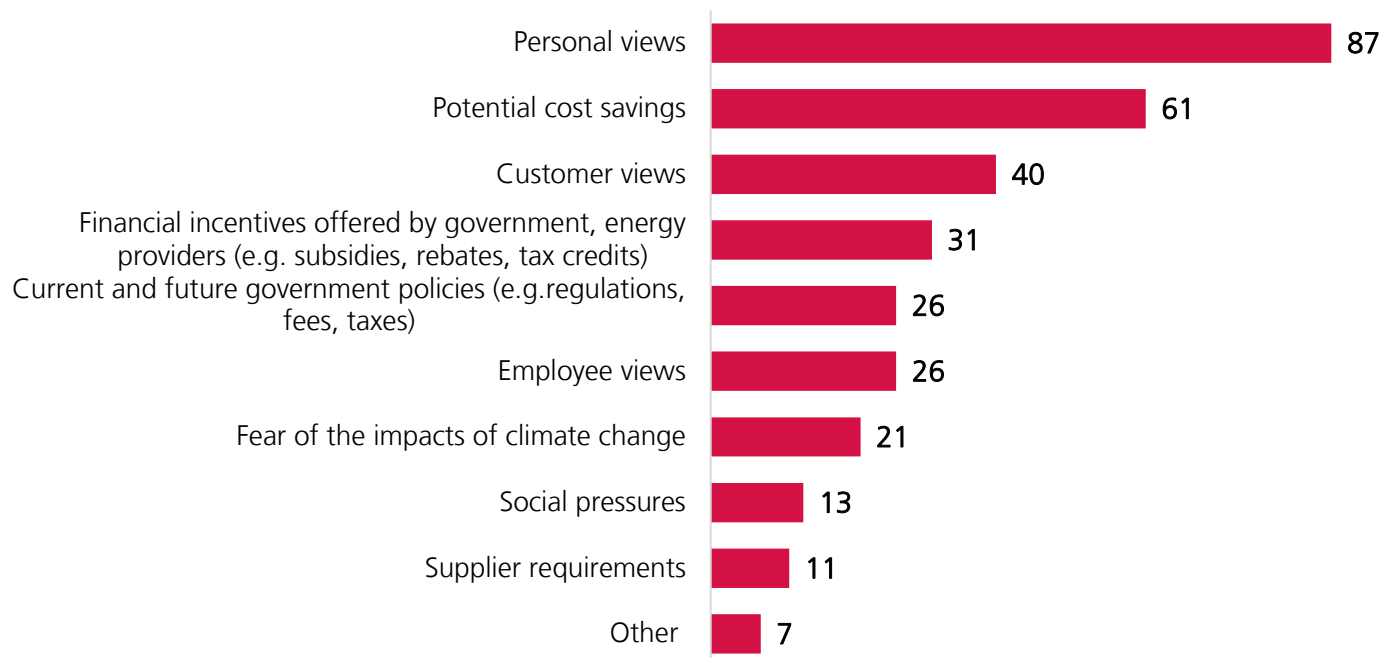
***“Farmers always look after the environment. If we didn’t our livelihoods would be gone. Things such as direct seeding has made a huge impact by better conserving our soils and sequestering carbon, and greatly reducing fuel usage. This farm has gone geothermal heating both in our shop and house.” Farm Member, Saskatchewan***

***“Farming practices: focused on sustainability. More focused on time-release fertilizer which help to prevent loss into the atmosphere. Also, double wall fuel storage to prevent spills at fuel storage. Energy efficient furnace for heating. Insulating our house better to reduce heating requirements. No till farming practice for the last 25 years which requires less fuel use and promotes better carbon capture with our land.” Farm Member, Alberta***

***“We are always working to make ourselves more efficient, and when we achieve that goal we produce more food with less inputs and that helps the environment. We also aim to capture more carbon from the atmosphere and lock it into the soil. We do this by using better grazing management practices for our livestock, and by implementing no till strategies for our crop production, and including cover crops to minimize soil loss, improve soil health, and reduce the need for purchased synthetic inputs.” Farm Member, Ontario***

Figure 5

### What motivates your business to implement measures to improve environmental quality? (% response)



Source: CFIB, National Energy and Environment Survey, Agriculture responses, Canada n=285, February 2020.

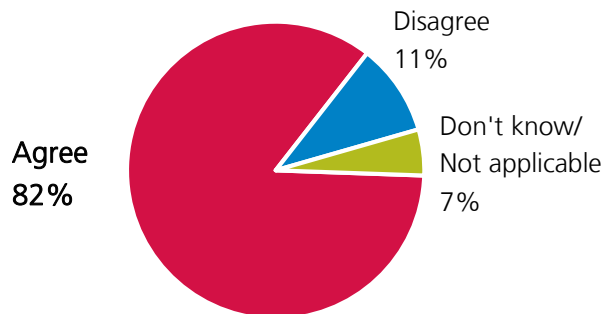
It is evident from CFIB’s survey results and the hundreds of comments received from Canadian farmers that they believe they have a strong responsibility to protect the environment. In fact, when asked what motivates their business to implement measures to improve environmental quality, **87 per cent of farmers said they are motivated by their own personal views** (see **Figure 5**). **Sixty-one per cent** said they were motivated by potential cost savings and **40 per cent said they were motivated by their customers’ views**. Farmers are already leaders in taking action to protect the environment because of their own motivation to do so. A carbon tax is not a motivation for farmers to implement measures.

## Impact of the federal carbon tax on the agriculture sector has been negative

CFIB has been hearing from farmers about the negative impact the federal carbon tax has been having on their bottom line. When CFIB surveyed our farm members, **82 per cent of respondents agreed the federal carbon tax is negatively impacting their business** (see Figure 6). However, when analyzing the data by sector, **94 per cent of farmers in the field crop sector** and **93 per cent in the livestock sector** have been most negatively impacted.

Figure 6

**Please indicate whether you agree or disagree with the following statement regarding the federal carbon tax plan: The federal carbon tax is negatively impacting my business.**



Source: CFIB, National Energy and Environment Survey, Agriculture responses from SK,MB,ON n=234, February 2020.

As mentioned, most agri-businesses have already taken steps to protect the environment and are motivated by their personal beliefs to take action. Agriculture is already doing its part. CFIB believes a carbon tax on propane and natural gas to dry grain or heat dairy or poultry barns punishes businesses for utilizing a product for which there are **very few or no practical alternatives**.

*“Our industry is one of the few that cannot regulate at what prices our products are sold, and as such has had the unique position of having literally all costs increase while the income declined. The carbon tax has only added to the financial burden that our industry battles yearly, with no quantifiable results to support its continued implementation.” Farm member, Saskatchewan*

This fact alone demonstrates the ineffectiveness of the carbon tax on the agriculture sector and a feeling among farmers that the carbon tax is a very blunt instrument and does very little to help them reduce their emissions. The real impact of this tax has been reduced profitability and it has created a significant competitive disadvantage for Canadian farmers as they work to compete against other agricultural producers across the globe.

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**Federal carbon tax is a significant hit to farmers' bottom line: almost \$14,000 in additional costs in 1<sup>st</sup> year**

Farmers' bottom line has been hit hard by the federal carbon tax. When asked to estimate how much their business expects to pay in federal carbon taxes in the first year it applies to them (April 1<sup>st</sup>, 2019 to March 31<sup>st</sup>, 2020), farmers on average will pay an extra **\$13,978.70**. This amount includes carbon tax costs for natural gas, propane, fertilizer and shipping costs. This is a huge cost burden and is further evidence of the negative impact of the federal carbon tax on farm businesses.

**On average, farmers will pay almost \$14,000 in federal carbon taxes from April 1<sup>st</sup>, 2019 to March 31<sup>st</sup>, 2020**

It is important to note that CFIB's cost estimates for farm businesses are in line with data from other organizations such as the Agricultural Producers Association of Saskatchewan (APAS). APAS recently stated "in 2020, the 5,000-acre farm will pay \$10,432 in direct and indirect carbon taxes, representing 8% of their total net income. At the 2022 carbon tax rate, the farm would pay \$16,681 in direct and indirect carbon taxes, representing 12.5% of their net income." (Source: APAS, Estimated Impact of the Federal Carbon Backstop on Farm Net Income, 2020)

Farmers are very disappointed the federal government did not conduct a more thorough study on how the carbon tax would impact the agriculture sector. CFIB is also deeply concerned that the impact and hit to farmers' bottom line will be even greater in 2022 when the federal carbon tax is scheduled to rise to \$50/tonne CO<sub>2</sub>.

It is also important to note that any carbon tax rebate a farmer will receive this year will not cover these substantial increases in costs. The current rebate structure does not even come close to off setting the substantial costs many farm business owners are incurring as a result of the carbon tax. As such, CFIB recommends the government should allocate an equal share of the revenues between households and businesses to better reflect the share of taxes being paid by each.



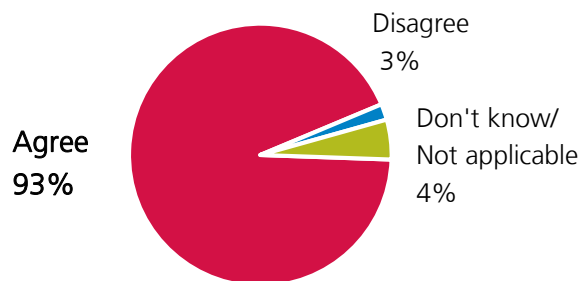
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## A Tax on a Tax: GST on the Federal Carbon Tax

To add insult to injury, GST is charged on the federal carbon tax. This is frustrating to farmers when they see this line item on their propane or natural gas bill. In fact, **93 per cent of agri-business owners agree the federal government should not charge GST (5% sales tax) on the federal carbon tax as it currently does** (see Figure 7). When analyzing the data by agri-business sector, **98 per cent of farmers in both the livestock and field crop and combination sectors agree that the GST should not be charged on the federal carbon tax.**

Figure 7

**Please indicate whether you agree or disagree with the following statement: The federal government should not charge GST (5% sales tax) on the federal carbon tax as it currently does.**



Source: CFIB, National Energy and Environment Survey, Agriculture responses from SK,MB,ON n=235, February 2020.

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## Farmers cannot pass the cost of the federal carbon tax on to their customers

According to CFIB survey results, **62 per cent of agri-businesses said they would be able to pass on less than one-quarter of the new costs to customers between April 1<sup>st</sup>, 2019 and March 31<sup>st</sup>, 2020.** In fact, over half (53%) of farmers said they will have to eat the entire cost of the carbon tax. When analyzing the data by agri-business sector, **83 per cent in the field crop sector said they would be able to pass on less than ten per cent of the federal carbon tax costs to customers, with over 78 per cent eating the entire cost.**

As many in the sector are price takers, these additional costs will have a direct impact on their bottom line. Moreover, the ripple effect throughout the agriculture sector has likely resulted in an increase in indirect costs for farmers from the carbon tax applied to transportation services such as railways and transport/trucking providers.

As mentioned, these costs hamstring farmers' ability to compete, and paradoxically, invest in new technology to be even more efficient. We know farmers care about the environment and have already taken many steps to reduce their emissions and taken action to protect the environment. That's why government needs to immediately find ways to reduce the burden and unfairness of the carbon tax on farmers.

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## Impact of the federal carbon tax on farmers

*“The carbon tax will simply be passed down by all other businesses until it stops at the only business that cannot pass it on to their customers which is agriculture.” Farm Member, Saskatchewan*

*“The carbon tax is, in fact, a hidden tax so there is no way of knowing how much my business and household is paying. **The carbon tax is charged on everything I buy that is transported by wheels, rail, plane or ship but does not appear as a line item on my invoice. That makes it hidden and impossible to calculate.**” Farm Member, Manitoba*

*“As farmers our costs have gone up and we have no recourse to pass the costs on to our customers. The carbon tax does ZERO for the environment. We do not have options that are more “carbon friendly” so we are stuck with paying.” Farm Member, Ontario*

*“It has done nothing but take money out of my pocket directly (fuel purchases) and indirectly by increasing my food budget, and increased the price of my input costs for my business and pretty well anything that is shipped. They say there is some rebate coming on my taxes but I am certain it will be a far, far, far cry from what it will cost me directly out of my profits. A corn farmer’s propane drying bill had so much carbon tax on it, that after he dried his corn it ate up more than the little bit of profit that corn would have had.” Farm Member, Ontario*

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## Current exemptions need to be extended to other eligible farming activities

CFIB recognizes gasoline and diesel fuels for on-farm use are exempted under the federal carbon tax. Natural gas and propane are only exempt for greenhouse operators. As you know, there are many compelling reasons why farms are currently exempted and there is further evidence provided in this letter that exemptions need to be extended to other eligible farming activities.

CFIB first started calling for additional carbon tax exemptions for farming operations in March 2019 when we wrote to your colleague, Federal Finance Minister Morneau and the Canada Revenue Agency (CRA) to exempt the carbon tax on farm fuels purchased through cardlock facilities. CFIB was pleased your government and CRA listened to our 7,200 farm members and the agriculture sector.

In April 2019, we also recommended in a letter to the Department of Finance that the Federal government **extend the carbon tax exemption to include natural gas and propane that are used for eligible farming activities including drying grain or heating barns.** Given the challenging harvest this past year across the country, these exemptions are urgently needed on propane and natural gas used for drying grain.

In CFIB’s recent small business recommendations for the upcoming federal budget 2020, we also recommend exemptions from the federal carbon tax for natural gas, propane, and aviation fuel used by farmers for farming activities such as drying grain, spraying fields or heating barns.

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## Other ways to improve Canada's overall tax and regulatory competitiveness in the agriculture sector

On December 2<sup>nd</sup>, 2019, CFIB wrote a letter to you urging your government to take action on some key election promises to make the agriculture sector more competitive. Recently CFIB also issued its list of small business recommendations for the 2020 Federal Budget which included policies that make it more affordable to own, operate and pass on a small business, including fair tax treatment of family succession, lowering payroll taxes, and reducing red tape.

### Taxation:

- Ensure that the sale of a small business to family members is treated in a similar manner as a sale to a third party.
- Reinstate indexation for the Lifetime Capital Gains Exemption limit for farmers and fishers so that it doesn't lose its value over time.
- Halt or slow down CPP premium increases: In 2019, CPP rates went up by 15 cents per \$100 of pensionable earnings. Even larger hikes will continue for the next four years, with an additional two years of rising premiums for employers with staff above the current maximum pensionable earnings. Halting the plan for a 20% overall increase in Canada's largest payroll tax would provide much needed relief as these increases are difficult for businesses to absorb.
- Allocate an equal share of carbon tax revenues between households and businesses to better reflect the share of carbon taxes being paid by each.

### Red Tape:

- Continue to reduce the burden of red tape on farmers so they have more time and resources to grow and expand their business.

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## Recommendations:

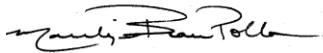
Agri-business owners need to compete on the world stage and strong policies are needed to ensure they are more competitive, nimble and productive. Therefore, we recommend the following:

1. While gasoline and diesel fuels for on-farm use was exempted from the carbon tax, natural gas and propane used by farmers for drying grain or heating livestock facilities, as well as aviation fuel for spraying crops, were not. **Exempt natural gas, propane, and aviation fuel used by farmers for farming activities such as drying grain, heating barns, or spraying fields from the federal carbon tax, including those farm expenses from 2019.**
2. **End the practice of charging GST on the carbon tax.** Charging GST on the carbon tax should end immediately.
3. **Stop further increases in the overall tax burden (e.g. CPP and carbon tax) on farmers.**
4. **Work to improve Canada's overall tax and regulatory competitiveness in the agriculture sector.**

In conclusion, our data reveals the federal carbon tax is an ineffective instrument that punishes farmers with significant costs, making them less competitive on the world stage and less profitable. Given most farmers are price takers and do not have the ability to pass on these costs to their customers, we are urging you to use this new data and act on the above recommendations.

On behalf of the CFIB, we would like to thank you for your urgent attention to this matter. If you have questions or if you would like to discuss the data or information provided, please feel free to contact us at [Marilyn.Braun-Pollon@cfib.ca](mailto:Marilyn.Braun-Pollon@cfib.ca) or [Jasmin.Guenette@cfib.ca](mailto:Jasmin.Guenette@cfib.ca) or call our office at 613-235-2373.

Sincerely,



Marilyn Braun-Pollon  
Vice President, Western Canada and Agri-Business



Jasmin Guénette  
Vice-President, National Affairs