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On behalf of the Canadian Canola Growers Association (CCGA), please accept these considerations in response to Finance Canada's consultation on a Border Carbon Adjustment Mechanism (CBAM). While such a mechanism could play a role in achieving our national emissions targets, care must be taken in balancing Canada's climate change ambitions with our economic competitiveness and our global trade commitments.

CCGA is the national organization representing Canada's 43,000 canola farmers. Canola is Canada's most widely seeded crop, generating the largest farm cash receipts of any agricultural commodity, earning Canadian farmers over \$10.2 billion in 2020. The industry we support contributes over 200,000 direct jobs and \$29.9 billion to Canada's economy every year. Our farmers are heavily trade dependent exporting 90% of what they grow as seed, oil or meal while importing critical crop inputs (i.e. fertilizer, pesticides), farm machinery and infrastructure. Exports alone were valued at \$11.8 billion in 2020 reaching over 50 countries.

Canola farmers are committed to a sustainable future and have established goals to support that commitment. By 2025, they will reduce their fuel usage by 18% per bushel, increase land use efficiency by 40% per bushel, sequester an additional 5 million tonnes of CO<sub>2</sub>e, use 4R nutrient stewardship practices on 90% of canola production acres, and continue to safeguard the more than 2,000 beneficial insects that call canola fields and surrounding habitat home.

As partners in Canada's fight against climate change, we offer the following considerations.

### **International considerations**

It is imperative that a Canadian CBAM be aligned with our key trading partners and be considered within the global context. CCGA supports the 2020 Fall Economic Statement and Budget 2021's commitment to work with like-minded nations within a broader climate change strategy and to maintain competitiveness in a fair and open trading system.

While the United States (US) and the European Union (EU) have similar goals to reduce greenhouse gases and achieve carbon neutrality, they are pursuing very different approaches including their approach to carbon border adjustments. The US is canola's largest trading partner, and the North American agriculture market is highly integrated. The EU is a growing market for clean fuels such as canola-based biodiesel.

A patchwork of regimes has the real potential to enact barriers and disrupt trade, as well as increase the possibility of a double carbon price. Engaging early in the design process increases the chance of a multilateral approach and having Canada's approach recognized as equivalent, most notably by the US and European Union.

Additionally, any design should fully account for Canada's World Trade Organization (WTO) commitments, as well as respect our bilateral free trade agreements. The WTO's framework underpins our international trading system offering clear and predictable rules of trade. The mechanism's design and details will determine trade compliance, and any deviation could open Canada to potential trade disputes, to criticisms of protectionism, and undermine the mechanism's stated objectives.

Unfortunately, WTO case law provides little detail on how CBAMs should be established. What sectors are included (Energy Intensive Trade Exposed); what exemptions, if any, are considered; what form the CBAM takes (export rebate, tax), what data and formula is used to calculate rates; what point of the value chain is targeted; and what scope of emissions (Direct) are covered will all dictate its impact on the Canadian agriculture sector, as well as trade compliance.

### **Economic considerations**

With international trade the lifeblood of our sector, canola farmers need to remain competitive in both global and domestic markets. Any mechanism must consider the cost increase of imported products and mitigate impacts on downstream users. Fertilizer, fuel, and food and beverage are highlighted as Energy Intensive Trade Exposed sectors. Farmers rely on fertilizer imports for specific nutrients not produced in Canada to grow and realize crop yields, whereas steel and aluminum are main parts in tractors, equipment, and storage bins. For example, targeting primary steel production could potentially shift the cost to end-use products. Farmers are ultimately responsible for any increased cost and, as the last link in the value chain and with grain prices set globally, can't pass on any increased costs.

To ensure a predictable business environment and to reduce complexity, any CBAM should consider and align with existing federal and provincial environmentally-focused legislation, regulations, and policies.

### **Environmental considerations**

The primary objectives of a CBAM should be to preserve the competitiveness of Canadian business and prevent carbon leakage. The Government should determine how any revenue collected from such a mechanism should be used in the design process and consider using it to assist companies continue to transition and accentuate ongoing efforts towards carbon neutrality.

Given the above considerations, CCGA recommends the Government proceed with caution and ensure any Canadian CBAM maintains our competitiveness and be designed to align and be recognized by our major trading partners.

Thank-you again for the opportunity to share our views.

Sincerely,

Original signed by

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