



BRIEF TO THE HOUSE OF COMMONS
STANDING COMMITTEE ON AGRICULTURE
& AGRI-FOOD REGARDING *The Impact of
Border Carbon Adjustments and Reciprocity
of Standards on Canadian Agriculture*

October 2024

Thank you for the invitation to provide comments on behalf of the Canadian Meat Council.

The Canadian Meat Council is the voice of Canada's meat industry, representing the entire value chain of red meat production and distribution in Canada, including all beef and pork sold internationally. The meat processing industry, represented by CMC, is the largest component of Canada's food processing sector, with annual sales surpassing \$32 billion and supporting almost 300,000 jobs nationwide. Our members process over 90% of Canadian beef and a 96% of pork. The meat our members feed Canadians and the world with some of the highest-quality protein in the world.

As an export-oriented industry and the largest food manufacturing sector, we play a crucial role in Canada's economy and trade.

Background

Carbon Border Adjustment Mechanism's (CBAMs) or Border carbon adjustments (BCAs) are emerging as a potential tool for countries to address carbon leakage as they intensify climate change mitigation efforts. CBAMs tax carbon emissions embedded in imports, aiming to prevent the displacement of economic activity and greenhouse gas emissions to jurisdictions with less stringent climate policies. This mechanism works in conjunction with domestic carbon pricing by leveling the playing field between domestic and foreign producers. Carbon leakage occurs when countries with higher carbon prices import more from nations with lax environmental policies, effectively shifting emissions abroad. By implementing BCAs, countries seek to maintain the effectiveness of their climate policies while protecting domestic industries from unfair competition and encouraging global emission reductions.

Global context

The implementation of CBAMs is gaining momentum globally, with the EU leading the way. There are about 80 different carbon pricing and taxation mechanisms in the world. The Director General of the World Trade Organization (WTO) recently warned of disruption to commerce from EU and other unilateral green taxes and called for a global, harmonized carbon pricing system to avert trade friction.

Under the EU CBAM's which began in 2023 and will be phased in over ten years, importing companies must report import-embedded emissions. Starting in 2026, fees based on those emissions will apply. The initial CBAM focuses on primary goods like cement, steel, aluminum, fertilizers, electricity and hydrogen. The EU is also actively considering and consulting on expanding it to downstream products in the future, although it is not clear if/to what extent agriculture is considered in these discussions.

Norway and the United States are developing their own proposals, signaling a growing trend towards carbon pricing and border adjustments.

Other countries, including the UK, Australia, China, and Japan, are exploring or implementing similar measures. This global shift demonstrates the increasing recognition of the need for carbon pricing and border adjustment mechanisms to address climate change and prevent carbon leakage.

Impact on Canadian agriculture and the meat industry

- The EU's CBAM currently covers only six emission-intensive products, with fertilizer being the only agriculture-related item.
- The implementation of a border carbon adjustment mechanism could potentially require extensive and detailed emissions reporting throughout the entire supply chain, from primary producers to exporters.
- Currently, the Canadian agricultural sector lacks the comprehensive data collection and reporting systems necessary to meet such rigorous requirements. There is a significant risk that implementing CBAM measures could impose a substantial administrative and financial burden on farmers, processors, and exporters, potentially impacting the competitiveness of Canadian agriculture abroad.
- While CBAMs aim to create a level carbon playing field between countries, measuring carbon emissions and ensuring fairness is complex. Experts share that CBAMs are unlikely to pose a significant issue for the agriculture sector in the near future.
- Trade implications are not known; however, many have raised concerns, signaling the potential for disruptions and WTO disputes.
- Canadian producers have legitimate concerns about the reciprocity of standards in international trade. Implementing strict reciprocity of standards beyond safety concerns poses challenges that could introduce additional costs and friction into the food supply chain. Ensuring exact reciprocity across diverse regulatory environments is extremely complex and could inadvertently create new trade barriers.
- A more effective approach could be to promote greater alignment of standards and regulations rather than strict reciprocity to level the playing field for producers while maintaining open and efficient international trade.
- For Canadian agriculture and meat exports, the EU's deforestation regulations present a more significant challenge than potential CBAMs.
- Additionally, there is growing recognition of the need to repurpose existing trade-distorting subsidies towards more sustainable practices. According to some estimates, there are \$600 billion in trade-distorting agricultural subsidies globally. Redirecting these funds towards green initiatives could simultaneously address climate change and reduce trade distortions.
- Canada should actively engage in international discussions in multilateral forums like the G7 and WTO to shape outcomes that include Canada's best interests.

Recommendations

The CMC recognizes the importance of addressing climate change and emphasizes the need for an approach that does not fragment efficient trade routes. CMC supports the Committee's proactive study of CBAMs, recognizing the evolving nature of this area and its many uncertainties for agriculture.

We recommend that the committee considers the unique challenges faced by the agri-food sector in implementing CBAMs and to work towards solutions that reduce trade frictions, maintain Canada's competitiveness in the global market while advancing environmental goals.

The CMC is committed to being part of the solution, supporting initiatives that enhance our industry's sustainability, and global food security while maintaining its vital role in Canada's economic landscape.