Business Council of Manitoba Position Paper on Carbon Tax Implementation

Business Council of Manitoba Position and Recommendations:

The Business Council of Manitoba has serious concerns about the federally mandated plan to address greenhouse gas emissions, and the proposed provincial implementation, notably the negative impact of this program on the international competitiveness of Manitoba businesses; the uncertainty over the provincial plan's carbon tax rates in Years 4 and 5, and the perceived inequities in federal expectations/requirement for Canada's provinces and territories. For these reasons, it is difficult to support the approach being taken by our Federal Government to reduce greenhouse gas emissions. We strongly urge our Federal and Provincial governments to further review their framework and specifically the unintended negative impacts of the carbon tax to ensure the concerns of the business community have been fully considered and addressed.

It is important that in the current international economic climate Canada ensures that first, this is the best approach to achieve the targeted results, and second to ensure that the intended and unintended consequences of the programs have been fully assessed. Specifically do our governments understand the impact on Canada's international competitiveness and are they convinced there is equity in national expectations for all regions of our country? Wrong choices will impact investment decisions, and trade opportunities.

The two levels of government should assess the impact of the proposed carbon tax on Manitoba's overall competitiveness, both domestically (given the potential inequities in the carbon tax programs of other provinces versus Manitoba) and internationally. This latter effort should focus on the potential impact in both domestic and US markets and should consider not only US competitors, but also other major importing countries to both markets. The results of this assessment should then be fully considered, both by our federal government and our provincial government, in setting ongoing policy and programs related to the reduction of greenhouse gases by Canada and Manitoba.

We put forward the following recommendations for consideration. In our view they will help address the competitive disadvantages of the proposed carbon tax.

Recommendation #1: Clarify the Manitoba Carbon Tax Rate

Business planning horizons for investments and major strategic initiatives are typically 3 to 5 years at a minimum. As it is unclear whether Manitoba's proposed rate of $25 per tonne over the next 5 years will be accepted by the Federal Government or if additional carbon taxes will be implemented in Years 4 and 5 uncertainty lingers. This uncertainty will be a negative factor in longer term investment decisions. We urge the

Provincial Government to resolve this issue with the Federal Government prior to the implementation of the carbon tax. In the event this is not possible, we recommend the Provincial Government reduce the carbon tax rate to the schedule as proposed by the Federal Government until there is certainty on future tax rates.

Further, for many manufacturers in Manitoba, the use of carbon-based fuels is an essential part of the end-product manufacturing process, such as paint line drying ovens and chemical solutions heating. We recommend that the Provincial Government exempt the carbon-based fuels used as direct manufacturing inputs from the carbon tax.

Recommendation #2: Carbon Tax Export Credits

To maintain Manitoba's competitive position, the Government of Manitoba should recognize that there is no carbon tax in the US (and many other countries we export to) and that special measures are required in the provincial implementation to ensure our competitive advantage continues. We propose that the proceeds from the carbon tax be used to provide an 'export credit' to Manitoba businesses exporting product from Canada. Simply, the value of exports as a percentage of total production would be used to calculate a carbon tax credit on total carbon tax payments by the business. That is, if 80% of production is exported the business would receive a carbon tax export credit of 80% of the total carbon tax paid by the business in that fiscal year.

Recommendation #3: Maintaining Manitoba's Green Energy Advantage

Past and current investments in Manitoba Hydro contribute to Manitoba's competitive position through comparatively low Hydro electric rates for individual consumers and businesses. The availability of hydroelectric power is an advantage to Manitoba businesses. However, the debt load of Manitoba Hydro has been increasing significantly. Further, that debt load will increase even more when the current Bipole 3 transmission line and the Keyask generating station are commissioned and become operative over the next several years. As a Business Council we have expressed serious concerns about the financial health of the crown utility. To help restore the financial health of Manitoba Hydro we recommend that the balance of carbon tax proceeds remaining after the payment of all export credits is made be applied to reduce the debt load of Manitoba Hydro. This will strengthen Hydro and alleviate future price increases to consumers and businesses.

Recommendation #4: Avoid non-productive investments

We recommend that no funds be allocated to either government or Hydro delivered programming or operations. Any rebates, credits, or innovation investments should be in partnership with the industry sectors.

Recommendation #5: Federal Agreement

We urge the Government of Canada to accept these recommendations as being consistent with their policies to reduce greenhouse gas emissions, to maintain a strong economy based on our competitive advantages, to enhance our ability to make further investments reducing greenhouse gases and to ensure our businesses can export competitively to our largest trading partner.

Background:

As part of Canada's commitment to reduce greenhouse gas emissions the Government of Canada has mandated that all provinces and territories implement programs beginning in 2018 to achieve prescribed targets and that those plans include either a carbon tax on fuel consumption or a cap and trade system. In the absence of a provincial plan the federal government has stated that it will impose a federal program consistent with its direction to provinces and will administer the use of the proceeds of any federal carbon tax.

The federal plan requires provinces implementing a carbon tax to commence, at a minimum, with a $10 per tonne tax in the first year escalating $10 per year for the next five years to a total of $50 per tonne. Provinces may opt for a cap and trade system as is being done in Ontario and Quebec. Nova Scotia announced that it will implement an intra-provincial cap and trade system. Further, it is now unclear what the Ontario plan will be.

Manitoba's provincial government proposes a plan that sets a carbon tax at $25 per tonne in year one and remaining at that level for the entire five-year period. The plan includes directed action working with the largest emitters to further curtail emissions to help preserve their competitive positions within their respective industries. The federal government response is that this plan does not meet the established expectations of a $50 per tonne carbon tax in Year 5, leaving doubt as to whether the proposed provincial carbon tax will rise in Years 4 and 5 or remain at $25/tonne.

Under the Manitoba plan, businesses will pay a tax on all carbon-based fuels in the production of goods and services. Similar businesses in other cap and trade jurisdictions will not suffer the same impact. Further, under the cap and trade system, Ontario forecasts that the per tonne impact on businesses may be no more than $22 per tonne versus the $25 per tonne in Manitoba. There does not appear to be any consideration for consistent or equitable impacts across the country.

While other governments are also acting to reduce greenhouse gases, the efforts are not universal and consequently Canada's competitive advantage versus many countries, notably certain LCCs and the US, will be negatively impacted by a carbon tax. In the US there will not be a carbon tax in the foreseeable future.

International trade through the export and transportation of goods from Manitoba drives a significant portion of our economy. Trade increases our ability to provide jobs and incomes and secure additional investment to expand the economy. In an internationally competitive trading environment it is Manitoba versus the world. Our overall competitive position and advantages allow our businesses to survive. Further, Manitoba's exports are significantly weighted to the US.

It is ironic that the federal government, while rightfully pursuing a revised NAFTA agreement to support Canadian businesses and ensure we will benefit economically through the ability to export Canadian goods to the US is, at the same time imposing a tax regime that in our view will seriously compromise our competitive position versus American manufacturers. This action is counterproductive and imperils Manitoba exporters. The US is the largest and most dominant market for Manitoba exports and cannot be ignored.