

The Federal Carbon Pricing Backstop

How small businesses in Saskatchewan, Manitoba, Ontario and New Brunswick will be affected by the new federal carbon tax backstop

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With the federal carbon pricing backstop set to take effect for small businesses in April 2019 in Saskatchewan, Manitoba, Ontario and New Brunswick, small business owners are concerned about the impact this new cost will have on their ability to grow and remain competitive, particularly in the face of other new cost pressures such as Canada Pension Plan (CPP) increases. While many recognize the importance of acting to protect the environment and have taken steps to reduce their carbon footprint, the majority of small businesses believe this carbon tax plan is deeply unfair.

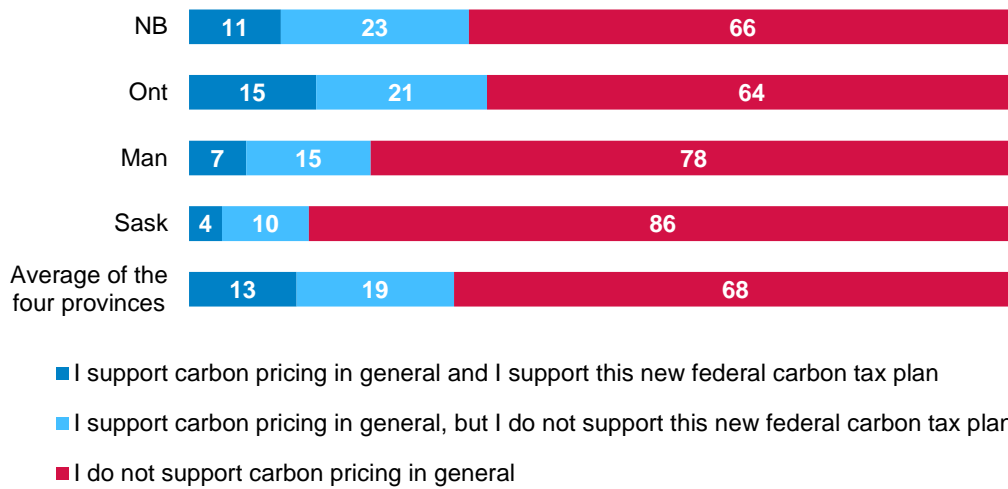
Introduction

Small businesses oppose the federal carbon tax plan

When asked where they stood on the federal carbon tax plan, 87% of small businesses in Ontario, Manitoba, Saskatchewan and New Brunswick indicated that they were opposed. Levels of opposition were highest in Manitoba and Saskatchewan (see Figure 1), as well as in the agriculture (85%) and natural resource (82%) sectors in all four provinces. While the majority (68%) do not support carbon pricing in general, it is interesting that a further 19% of respondents oppose this particular federal approach while supporting carbon taxes in principle.

Figure 1

Which of the following best captures your view on carbon taxes? (% response)

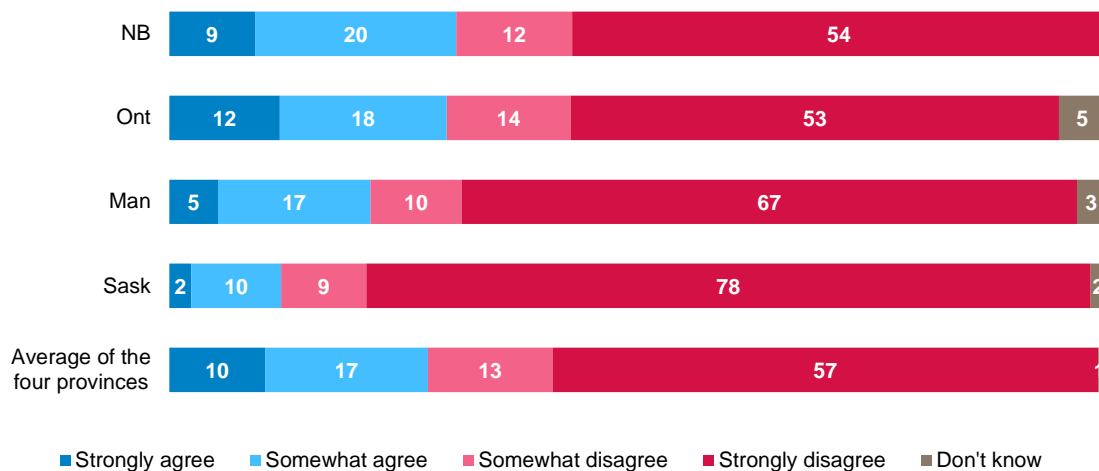


Small businesses believe carbon pricing is not the best way to reduce emissions

Moreover, 70% of our members either somewhat (13%) or strongly (57%) disagree that carbon pricing is a good way to reduce emissions and address climate change. Disagreement is strongest among members in Manitoba (77%) and Saskatchewan (87%) (see Figure 2).

Figure 2

Carbon pricing is a good way to reduce emissions and address climate change (% response)



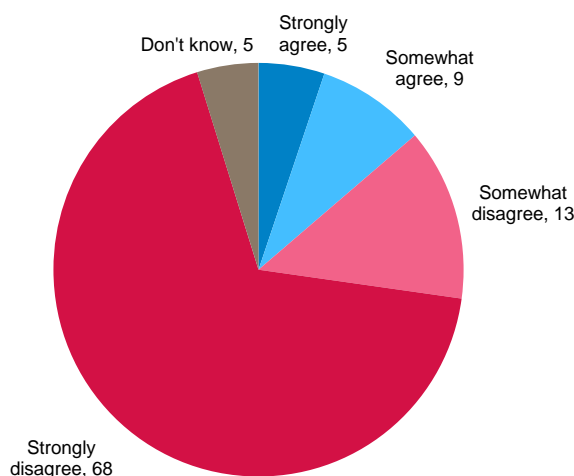
Small businesses cannot pass along the costs of a carbon tax

The federal government has made a significant assumption in introducing its carbon tax backstop plan. In its estimates of cost impacts for households, the federal government assumes, “full pass-through from businesses to consumers.”¹

To test whether this would be the case, CFIB surveyed its members in the four provinces on whether and how much of the carbon tax they would be able to pass on to consumers in the short to medium-term. A full 80% of small business owners did not think that it would be easy to pass on the extra costs to customers (see Figure 3).

Figure 3

It will be easy for my business to absorb/pass on the extra costs to my customers (% response)



Additionally, 55% of small business owners in the four provinces said they will not be able to pass on any of the additional costs and another 25% stated that they will only be able to pass along less than 25% of the added costs to their customers (see Figure 4). Notably, when broken out by sector, 77% of businesses in the agriculture sector say that they will not be able to pass on any the additional costs to their customers.

These findings should be deeply worrisome to public policy makers as it means that small firms will be forced to find the resources to pay the tax from the business itself, which means it may come at the expense of wages, jobs or future business growth.

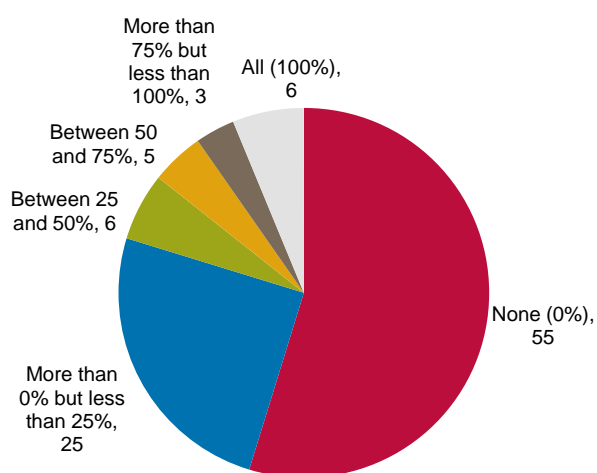
¹ Government of Canada (January 31, 2019). Fall 2018 update: Estimated impacts of the federal pollution pricing system. Retrieved from: <https://www.canada.ca/en/environment-climate-change/services/climate-change/pricing-pollution-how-it-will-work/fall-2018-update-estimated-impacts-federal-pollution-pricing-system.html>.

“The cost of everything will rise. We are in Saskatchewan and everything, from food to our production, must be transported. Those costs will go up and it will be hidden in the cost of our inputs. That will never be rebated. As a farmer, we have no control over the price we receive for our production. How can we pass that cost increase on? It just lowers our competitiveness by another percentage.”

— Farmer, Saskatchewan

Figure 4

How much of the carbon tax do you believe you can pass on to your customers in the short to medium term? (% response)



How the federal carbon tax plan fails the fairness test

An unfair deal for SMEs

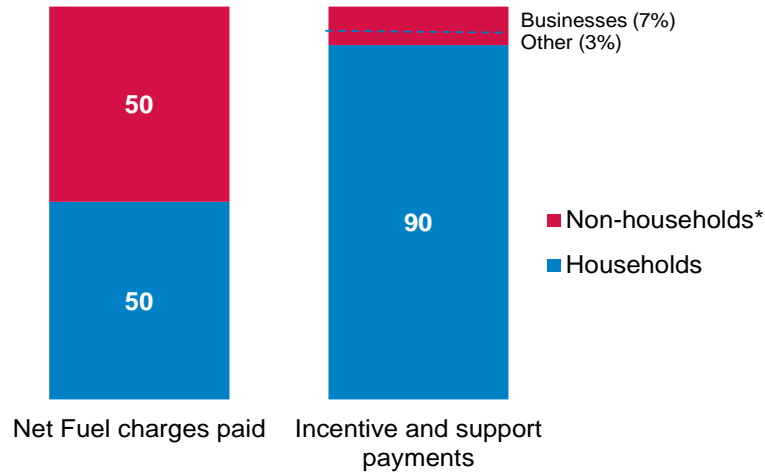
As part of the carbon tax measures, the federal government announced that \$1.5 billion in support will be allocated to SMEs in the four provinces over five years through a dedicated fund. This amount accounts for approximately 7% of the total revenues collected from the carbon tax over the same period. On the other hand, households will receive a rebate cheque that will, in many cases, exceed the amount they pay in carbon taxes. This would clearly indicate that the proportion of the carbon tax revenue that will be collected from SMEs will be much more significant than the amount that will be allocated to them through the dedicated fund.

Looking at publicly available data, it appears that businesses will bear about half of the direct burden of paying the new fuel charges, yet will only receive less than 10% of the adjustment incentives (see Figure 5). It is not likely that the most severely affected businesses will be able to fully recover these costs through price increases. Small exporters will be at a particular

disadvantage, but negative effects on employee wages or business profitability would also result among any company unable to pass on the costs.

Figure 5

% distribution of federal fuel charges and support payments



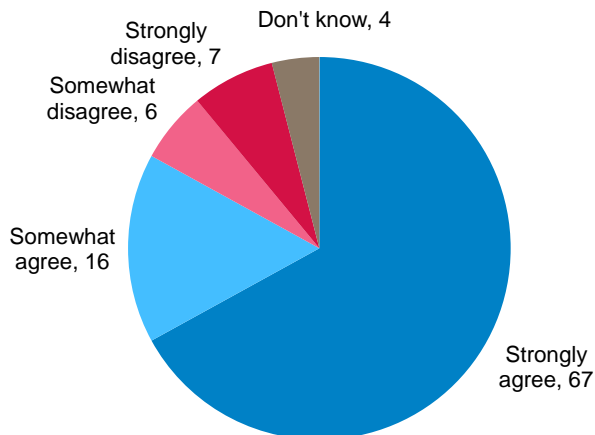
Estimates combined for SK, MB, ON, NB, 2019-20 to 2022-23
 * Includes businesses, municipal, education, healthcare, non-profit and indigenous communities sectors; excludes Output-Based Pricing System participants

Sources: CFIB estimates based on data from Federal Climate Plan, Finance Canada, University of Calgary School of Public Policy

Small businesses are being asked to absorb a disproportionate amount of the increased price on carbon in order to provide households with rebate cheques that more than offset their increased carbon-related costs. It is therefore no surprise that 83% of small business owners strongly (67%) or somewhat (16%) agree that the proportion of rebates which will be allocated to households versus small businesses and other groups is unfair (see Figure 6).

Figure 6

The current federal carbon tax plan where 90% of rebates/grants will go to households and 10% will go to small business and other groups is unfair to small business (% response)



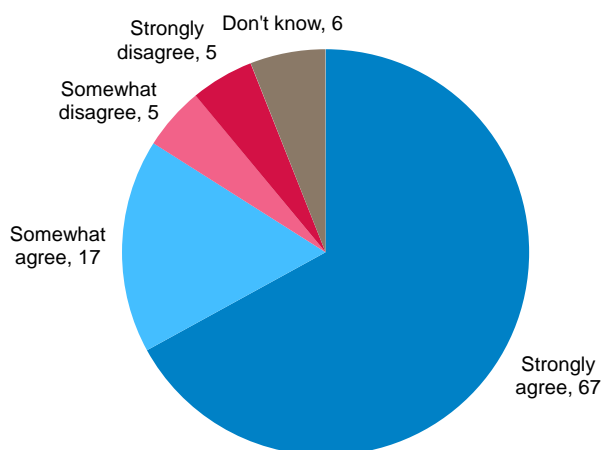
In addition to this, due to the federal government’s concerns around competitiveness, the emissions limits for some large businesses and multinational corporations under the federal output-based pricing system have been eased for many sectors including cement, iron and steel manufacturing, and lime and nitrogen fertilizer production. This means that many larger businesses in certain sectors will have some of their emissions shielded from the federal carbon pricing plan, while smaller businesses will not be provided the same relief.

Concerns around remaining competitive are not limited to big businesses. CFIB members have raised concerns that this new carbon tax will only increase the burden of government-imposed costs on their business and will make it harder for them to compete globally.

With households receiving rebate cheques and some large emitters being shielded from the full effect of the tax, SMEs will end up subsidizing a rebate program for consumers. Over 80% of our members in the four provinces either strongly (67%) or somewhat (17%) agree that small businesses should get back the same share in rebates or grants as they pay in carbon taxes (see Figure 7).

Figure 7

Small business should get back the same share in rebates/grants as they pay in carbon taxes (% response)



Small businesses are already taking action to reduce their emissions

Small business owners care about the environment and have already been taking steps to reduce their emissions. In fact, previous CFIB research has shown that the vast majority of small businesses have already taken actions to reduce their carbon footprint and protect the environment. Ninety-six per cent of our members have reported implementing environmentally friendly measures in their business in the past three years, including recycling (71%), reducing

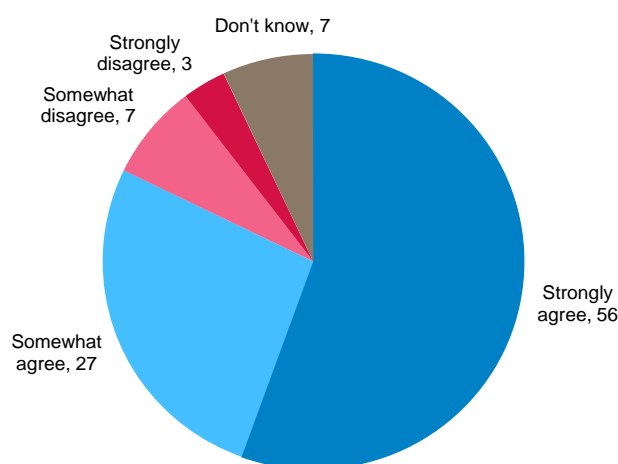
electricity usage (63%), using environmentally friendly products (39%), and making their buildings more energy efficient (33%).²

Personal motivation is the primary reason why small business owners are going green. When surveyed, 84% said they are taking action to implement environmentally friendly measures in their business because of their personal views, with many saying it's "the right thing to do" or that it is their "responsibility to protect [the environment] for future generations."³ In contrast, punitive measures such as taxes and fees were found to be the least motivational.

In fact, 83% of our members indicated that they have already done all that they can to reduce their carbon emissions (see Figure 8). This sentiment was consistent across all four provinces, as well as across all sectors. In comments provided on a recent survey to members in the four affected provinces, many small business owners felt that they had already made significant investments to reduce their carbon footprint, and therefore felt that the addition of a new carbon tax was unfair and did not recognize the efforts they have made.

Figure 8

I have already done all I can to reduce my business's carbon emissions (% response)



Factors that limit further emission reductions for small businesses

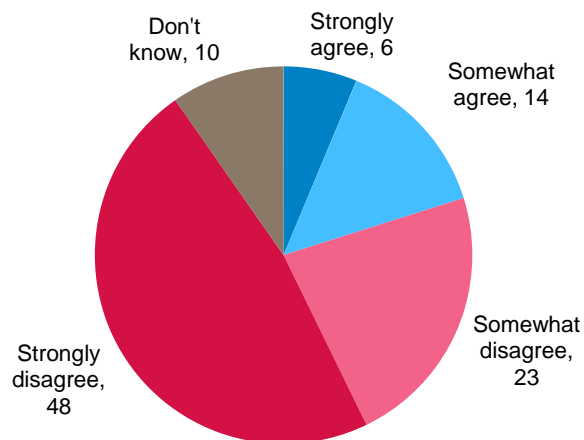
When surveyed, 71% of members somewhat (23%) or strongly (48%) disagreed that it was easy for them to take action to further reduce their business's carbon emissions (see Figure 9). In many cases, business owners were unable to take further action because they did not own the building they operated in, or were limited by available technologies.

² CFIB, Green Growth: How SMEs are working toward a greener future, April 2017.

³ Ibid.

Figure 9

I can easily take action to further reduce my business’s carbon emissions (% response)



“As the operator of a service business that employs 20 plus people, I feel we will be unfairly burdened with the carbon tax. We must travel to the location of the work. We must bring tools and materials with us to complete the work. More than half of my 23 employees must drive to the job sites throughout the day. Because of the nature of our work we must drive pickups and vans. While we purchase the most efficient vehicles we can, there are no super fuel efficient or electric vehicles that meet our needs. This is the bulk of our carbon emissions.”

— Construction Company Owner, Ontario

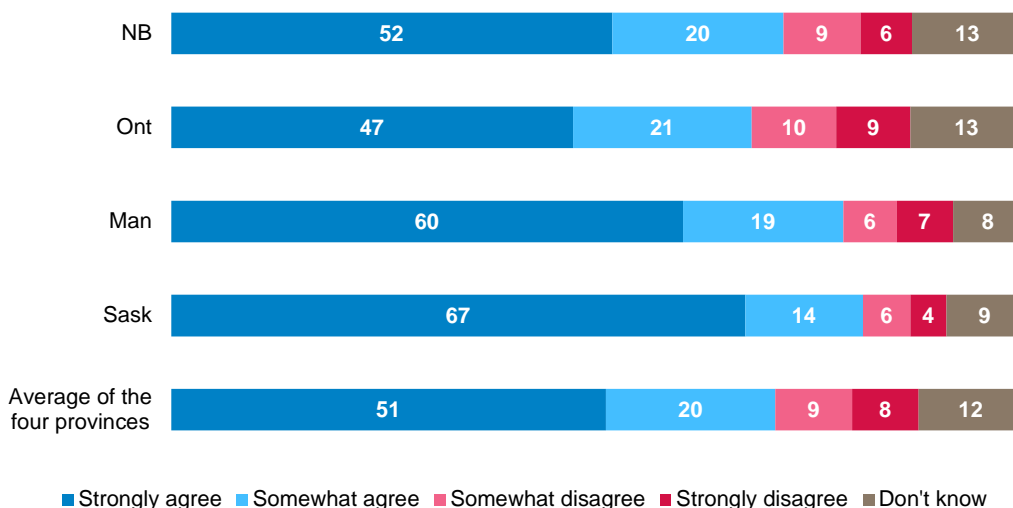
In fact, the majority (71%) of small business owners somewhat (20%) or strongly (51%) felt that the introduction of a carbon tax will actually make it harder for them to make further investments to reduce their emissions. This was especially the case in Manitoba and Saskatchewan (see Figure 10). According to previous CFIB research, the second-highest barrier for SMEs to implementing environmentally friendly measures was cost, just behind not being relevant to their business (e.g. not being allowed to make changes to their building).⁴

While the ultimate goal of the carbon pricing plan is to reduce emissions by incentivizing behavioural changes and actions to reduce emissions, the desired result is not often possible for many small businesses. It is important to recognize that many small businesses have financing limitations and too often cannot invest in new equipment or emerging technology even if there is a long-term benefit to doing so. A new carbon tax will further challenge their bottom lines and make it more difficult to finance the investments needed to become more environmentally friendly, thus having the opposite effect.

⁴ CFIB, Green Growth: How SMEs are working toward a greener future, April 2017.

Figure 10

A carbon tax will reduce my ability to make further investments to reduce my business's emissions (% response)



As smaller firms often face bigger hurdles when trying to access financing, making investments to reduce their carbon footprint can be more difficult than it is for a larger firm. Banks and other financial institutions tend not to provide loans to small companies looking to make improvements or renovations to become more environmentally friendly. While the Accelerated Investment Incentive (accelerated Capital Cost Allowances (CCA)) for machinery, equipment and clean technologies may be a helpful tool for small businesses looking to make these types of investments, many lack the upfront financing needed to make these investments in the first place.

Recommendations

It is clear that small businesses in Saskatchewan, Manitoba, Ontario and New Brunswick remain opposed to the federal carbon backstop plan and will not be able to pass on the costs to their consumers in the short to medium-term. As a result:

1. CFIB urges the federal government **NOT** to proceed with imposing the federal carbon backstop in these provinces and look to work with each province on customized approaches to address climate change that will minimize the negative impacts on small business.
2. Should the federal government proceed with its carbon tax plan in spite of these aforementioned concerns, we recommend the following measures:
 - Fairly allocate the revenues collected from the carbon tax back to SMEs in those provinces where the federal carbon backstop applies.

- Ensure that the same proportion of revenues collected from SMEs is reallocated back to them so that they are not subsidizing rebates to households.
 - Implement offsetting measures to help reduce the overall tax burden on SMEs so they are able to continue making investments to reduce their emissions and remain competitive.
3. CFIB further recommends that the federal government incorporate some of the following ideas when determining what to do with the full carbon tax rebate amount available to SMEs:
- Allow the broadest possible segment of SMEs to access the support allocated from the carbon tax revenues by ensuring that programs do not require complex paperwork or entail a lengthy approval process.
 - Consider non-grant funding, such as a renovation tax credit, to help reduce the costs of implementing environmentally friendly measures.
 - If a program is created to distribute support through grants, create two streams of funding available to access the support for SMEs:
 - The first for smaller projects that should be easily accessed and quickly funded, such as a new refrigeration system or updated HVAC.
 - The second for larger-scale projects that might require a lengthier process, such as significant environmental retrofits of a building.
 - Allow businesses to access or stack the CCA rate on top of any opportunities for government financing for the same purchase.
 - Expand the CCA classes for clean technologies (Class 43.1 and 43.2) to include more practical and accessible assets for SMEs, such as energy-efficient windows, appliances (e.g. refrigeration units and boilers), electric or low-emission vehicles, and HVAC equipment.
 - Further educate business owners about other actions or steps they can take to reduce their carbon footprint through websites and social media, as well as industry associations and publications.
 - Ensure that government programs and information are provided in a single window online, such as BizPal or the Innovation Canada platform.

Methodology

This paper presents findings from CFIB's Carbon Tax Survey, a new online survey completed by 3,527 CFIB members in Ontario, Saskatchewan, Manitoba and New Brunswick between November 9 and November 27, 2018. The survey has a margin of error of 1.7 percent, 19 times out of 20.