Environmental issues are a concern for many Canadians, small business owners included. A recent CFIB survey on environmental issues collected nearly 6,000 responses from small business owners and found that a majority of entrepreneurs are actively working to make their businesses greener. However, when it comes to pricing carbon, our members’ views vary from province to province which will make it difficult for any one national approach to work. The recent federal government announcement1 to implement a pan-Canadian price on carbon should allow each province to come up with its own unique solutions. Governments must also consider the impact that pricing carbon will have on small and medium-sized enterprises and their ability to remain competitive and continue to create jobs for the middle class.

Small businesses, big actions

The federal government has made environmental protection and climate change one of its key priorities. In response, CFIB conducted the National Environment Survey, from July 21 - August 29, 2016, across Canada. The password-protected online survey received 5,982 responses from small business owners across all sectors and provinces. The results are accurate to ± 1.3 percentage points, 19 times out of 20. Unless otherwise indicated, data in this report was obtained through the above survey. This policy brief is the first in a series of two. The second report will be published in early 2017.

Our survey revealed that the majority of small business owners have taken steps in their businesses to implement environmentally friendly measures in the past three years. Some of these activities include introducing or expanding recycling (71 per cent), and reducing their electricity usage (63 per cent) (see Figure 1). When asked what has prevented their business from implementing environmentally friendly measures in the past three years, over 32 per cent reported that cost is a barrier to implementing additional environmentally friendly measures. Additionally, increased education about environmentally friendly steps would be welcomed by almost a quarter of small business owners. They report that they need more information to understand what can be done within their business to help the environment.

Some sectors have been particularly innovative in their environmental stewardship, especially those sectors that have a strong reliance on the environment, such as agriculture. Ninety five per cent of our agriculture members report taking action to protect the environment. 2 These actions include investing in equipment, machinery, or vehicles that are more energy-efficient or environmentally friendly (63 per cent), improving their management of hazardous products (61 per cent), protecting water sources and waterways (60 per cent), and adopting energy conservation practices (56 per cent). 1

<table>
<thead>
<tr>
<th>Activity</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Introduced or expanded recycling (e.g. of paper, toner, cans, plastics)</td>
<td>71</td>
</tr>
<tr>
<td>Reduced electricity usage (e.g. by putting in place energy efficient lighting)</td>
<td>63</td>
</tr>
<tr>
<td>Used more environmentally friendly products in business processes</td>
<td>39</td>
</tr>
<tr>
<td>Made the building(s) more energy efficient with insulation and/or other upgrades (e.g. windows, doors)</td>
<td>33</td>
</tr>
<tr>
<td>Purchased or leased energy-efficient machinery, equipment and/or vehicles</td>
<td>25</td>
</tr>
<tr>
<td>None of the above, my business has already minimized its environmental footprint as much as it can</td>
<td>8</td>
</tr>
<tr>
<td>Other (Please specify)</td>
<td>4</td>
</tr>
<tr>
<td>None of the above, my business has not implemented any environmentally friendly measures in the past 3 years</td>
<td>3</td>
</tr>
<tr>
<td>Provided employee incentives for environmentally friendly transportation (e.g. help pay for public transit, provide bike racks)</td>
<td>2</td>
</tr>
<tr>
<td>None of the above, my business has not implemented any environmentally friendly measures in the past 3 years but plans to in the next 2 years</td>
<td>1</td>
</tr>
</tbody>
</table>

When asked what motivated them to change or improve their environmental footprint, by far the strongest motivator is their own personal views (84 per cent). Some business owners felt that being green was plain “common sense,” while others expressed that they wanted to ensure a sustainable future for their children and grandchildren. Other motivating factors included the potential for cost savings in their business (50 per cent), customers’ views (35 per cent), and employees’ views (34 per cent) (see Figure 2).

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2 CFIB, Realities of Agriculture in Canada, October 2014
A much smaller number of business owners cited government policies, incentives, or the fear of additional government regulations as a motivation to act. It would seem that additional regulations or taxes to encourage businesses to be greener may not have much real impact on the actions or attitudes of SMEs or be the most effective way to spur additional action.

**Figure 2**

What motivates your business to implement environmentally friendly measures? (% response)

- Personal views: 84%
- Potential cost savings: 50%
- Customers’ views: 35%
- Employees’ views: 34%
- Current government policies (e.g. regulations, fees, taxes): 22%
- Financial incentives offered by government, energy providers, etc. (e.g. subsidies, rebates, tax credits): 19%
- Fear of additional government policies (e.g. regulations, taxes, fees): 13%
- Suppliers’ requirements: 9%
- Other (Please specify): 4%
- Don’t know: 1%

For business owners, being “green” does not mean making a choice between implementing environmentally friendly measures and growing their businesses. Rather, close to 80 per cent of our members believe it is possible to both grow the economy and protect the environment at the same time (see Figure 3). In contrast, only 10 per cent think that protection of the environment should be given priority, even at the risk of curbing economic growth, and another 10 per cent believe that economic growth should be given priority, even if the environment suffers to some extent. For many businesses in sectors such as agriculture or natural resources, being environmentally friendly is important to the survival of their business.

**Figure 3**

Which of the following statements best describes your own point of view? (% response)

- I believe it is possible to grow the economy and protect the environment at the same time: 79%
- Economic growth should be given priority, even if the environment suffers to some extent: 10%
- Protection of the environment should be given priority, even at the risk of curbing economic growth: 10%
- Don’t know: 2%
Pricing carbon

The government must ensure that plans to put a price on carbon take into account not only the implications for Canada’s environmental footprint, but also for the economy. The current economic climate is flat and growth remains weak across the country—particularly in resource-intensive provinces, like Alberta, Saskatchewan and Newfoundland and Labrador. According to CFIB’s monthly Business Barometer, small business optimism drifted lower in November to 59.4 (see Figure 4). With seven years of increases in Canada Pension Plan premiums starting in 2019, and a small net increase in Employment Insurance rates for the smallest companies in 2017, business owners are concerned about their ability to absorb the planned five year implementation of carbon taxes or pricing starting in 2018.

Moreover, they worry about being able to stay competitive in the global economy, where some of their competitors may not face the same financial constraints. When asked what the impact of increased costs due to carbon pricing would be on their business, 72 per cent said that it would increase their operating or input costs (see Figure 5). Another 69 per cent feared that it would reduce their profitability, which could lead to higher prices or fewer investments in the business, and almost half said that it would put pressure on them to freeze or cut their employees’ salaries. Sectors such as...
agriculture will disproportionately feel the impacts of a price on carbon, despite the significant steps they have already taken to reduce their environmental footprint. Only 14 per cent of small business owners in all industry segments said that a carbon price would create an incentive to reduce their emissions. This leads to the question of whether this strategy is really the most effective in encouraging small businesses to implement environmentally-friendly measures.

**Figure 5**

*If a carbon pricing mechanism were to increase your business costs, what would be the impact? (% response)*

<table>
<thead>
<tr>
<th>Impact Description</th>
<th>Response</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase input/operating costs</td>
<td>72</td>
</tr>
<tr>
<td>Reduce my business’ profitability</td>
<td>69</td>
</tr>
<tr>
<td>Pressure to freeze/cut salaries</td>
<td>46</td>
</tr>
<tr>
<td>Delay investments (e.g. Equipment, employees) in my business</td>
<td>43</td>
</tr>
<tr>
<td>Creates an incentive to reduce my business’ carbon emissions</td>
<td>14</td>
</tr>
<tr>
<td>Don’t know</td>
<td>8</td>
</tr>
<tr>
<td>No Impact</td>
<td>6</td>
</tr>
<tr>
<td>Other</td>
<td>5</td>
</tr>
</tbody>
</table>

“I would fear being able to remain in business. Our customers won’t/can’t pay increased fees and the burden to make up those costs would become ours personally. We are a husband and wife running a small business and can’t afford to absorb additional taxes.”

Manufacturer, Ontario

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**Small Business views on carbon pricing: One size does not fit all**

As with many other issues that transcend federal and provincial jurisdictions, Canadians feel differently about carbon pricing depending on where they live, their current job market, and the state of the economy in their province. Efforts to put a price on carbon should take these factors into account, and consider the existing models already in place in some provinces, such as British Columbia and Ontario.

Across Canada, the majority of small business owners oppose new environmental taxes, such as carbon taxes or pricing. The results show 61.3 per cent of small business owners oppose such taxes,
35.3 per cent support, and 3.5 per cent are undecided. However, views on carbon pricing mechanisms differ from province to province.

When asked about their support for an additional tax on carbon, the strongest support came from Quebec, where respondents were divided nearly in half, with 50.6 per cent of small businesses supporting a tax, while 44.1 per cent oppose, and 5.7 per cent are undecided. British Columbia follows closely behind where 51.7 oppose a tax, 45.8 per cent support a tax, and 2.5 per cent are undecided. Nova Scotia also showed similar results. The lowest amount of support can be found in Alberta, where 78.8 per cent of small businesses oppose a tax and 19.1 per cent support one while 2.1 per cent of SMEs are undecided (see Figure 6).

Figure 6

To what extent do you support or oppose the following government approaches to deal with environmental issues? (% response)

a. Introduce taxes and fees (e.g. carbon tax, levies on tires and electronics)

The impacts of carbon pricing measures would differ across sectors of the economy and, as such, support is not uniform. Some sectors will feel a greater impact on the profitability of the business than others. Those that rely heavily on machinery and heavy equipment, such as businesses in the transportation and agriculture sectors, will see their input costs rise, which could limit the investments they are able to make in their businesses. A higher percentage of businesses in the natural resources (70 per cent), transportation (73 per cent) and agriculture (70 per cent) sectors oppose a carbon pricing mechanism, compared to sectors such as professional services (50 per cent) and social services (47 per cent). The level of support for these measures varies accordingly, with opposition being highest in sectors that would feel the biggest impact: transportation, agriculture, and natural resources (see Figure 7).
Figure 7
To what extent do you support or oppose the following government approaches to deal with environmental issues? (% response)

Introduce taxes and fees (e.g. carbon tax, levies on tires and electronics)

Prior to implementing a mechanism to establish a price on carbon, 80 per cent of our members strongly believe that the government should consider the costs of these measures for small businesses, and a further 74 per cent believe the economic impact should be assessed (see Figure 8). Additionally, 73 per cent of SMEs want governments to consider the regulatory burden that environmental policies could impose on their business. Educating businesses on measures they can implement would be more effective in helping them to reduce their environmental footprint than adding more government red tape.

“The carbon tax/transfer terrifies me as it is hidden, impossible to understand, has huge implementation & management costs, unintended consequences, difficult to keep fair.”

Butcher Shop, BC
Conclusion and Recommendations

Small business owners themselves believe that “going green” is a priority and have taken many steps over the last three years to help reduce their business’ environmental footprint. The best way to help SMEs continue to invest in environmental technologies and reduce their carbon footprint is to ensure they have the necessary tools and support to remain productive, create jobs, and innovate. To that end, CFIB urges the federal government to reconsider the introduction of a carbon price.

On a national level, small businesses oppose the introduction of carbon taxes/pricing, though there are significant provincial variations. Further, with the change in administration in the United States, additional carbon taxes and pricing may make Canadian entrepreneurs less competitive than their US counterparts.

Further to this, the federal government must carefully consider the costs to small businesses that would come from imposing additional taxes or adding to the regulatory burden. We recommend that the government engage in thorough consultations with the small business community specifically to explain how carbon pricing will work in those provinces without an existing approach, and what the impact will be on their business prior to imposing carbon pricing measures on the provinces. As indicated by CFIB’s Business Barometer, with weak economic growth, SMEs are increasingly worried about the future of their businesses. The government must therefore be very careful about imposing additional costs on business owners, particularly given the other cost increases at the federal and provincial levels, such as higher CPP premiums, minimum wages and municipal taxes.

The federal government must also ensure that it recognizes the diverse situations faced by provinces by allowing them to tailor solutions to their unique needs. Actions such as carbon sequestration, and cutting electricity emissions can serve as other ways to accomplish the same goal.
For example, Nova Scotia has been a leader in reducing their greenhouse gas emissions by investing in renewable energy; as of 2015, over 25% of the province’s electricity came from renewable sources.\(^3\) As such, they are on track to meet the COP21 emissions reduction goals by 2030 without having to resort to a carbon tax. The provincial government has successfully pushed the federal government to recognize the work they have done and, as a result, they will be able to develop a unique made-in-Nova Scotia cap and trade framework in 2017. This new framework will take into account the unique situation of the province.

CFIB also asks that all governments consider additional measures to help mitigate the increased costs of carbon pricing for those small businesses that are affected. These measures should include **revenue neutrality for any carbon pricing measure**. Our survey found that 74 per cent of SMEs somewhat or strongly agree that carbon pricing should be revenue neutral (see Figure 9).

**Figure 9**

To what extent do you agree or disagree that all revenues generated from carbon pricing should be revenue neutral for government? (% response)

![Pie chart showing responses to carbon pricing revenue neutrality](chart)

The federal government could also consider offsetting the additional cost of a carbon tax by reconsidering other important tax measures, such as **implementing the planned reductions in the small business corporate tax rate to nine per cent**, and **putting into place a permanent lower EI rate for smaller companies or an EI holiday for youth hires**. These measures would help small firms adjust to any additional costs due to carbon taxation or pricing.

In order to help small business owners reduce their carbon footprint, we ask that the government consult with SME stakeholders to help determine what information would be useful to businesses to help them reduce their impact on the environment. **Educating small business owners as to the cost savings available to them by implementing environmentally friendly measures** may encourage more businesses to do so. Also, **providing financing for the implementation of such measures** may accelerate the adoption of mitigating measures.

Governments must seek to strike a balance between policies that protect the environment and policies that help grow the economy. Introducing measures that significantly increase costs for SMEs can prevent many from being able to implement environmentally friendly measures in their business. Higher costs can also hinder SMEs’ ability to invest in innovative projects that could help to reduce their environmental footprint. If Canada is going to be a green leader, we need policies as diverse as our environment. We strongly believe that it is possible to be both green and have a competitive economy that fully supports small businesses.

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