

Submission to Manitoba's Climate and Green Plan Consultation

Small business views on Manitoba's Climate & Green Plan

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Environmental issues are a concern for many Manitobans, small business owners included. CFIB survey results show that small business owners care about protecting the environment, and are making efforts to implement environmentally-friendly measures in their business. However, hiring intentions among the province's entrepreneurs remained weak in February, 2017, and the recently announced pan-Canadian price on carbon leaves business owners with significant concerns. To help the government better understand these perspectives, CFIB is pleased to share survey results from hundreds of small business owners in Manitoba, for input on Manitoba's Climate and Green Plan.

Introduction

At CFIB, we are passionate about small business. Due to their massive contributions to our economy, employment and communities, they deserve a strong voice in government decisions. CFIB provides a reasonable, credible and effective way for small businesses to participate in the political process – just like big businesses and unions do.

Across the country, CFIB represents 109,000 independently owned and operated businesses, including 4,800 in Manitoba. We are a strictly non-partisan, not-for-profit political action organization. Our members are located in every region of the province, and in sectors that closely mirror the provincial economy.

CFIB policy positions are set by direct feedback from our members through regular surveys. This paper, "*Submission to Manitoba's Climate and Green Plan Consultation*" is based on results from CFIB's National Environment Survey, which was conducted from July 21 – August 29, 2016, and received 5,982 responses; 223 in Manitoba. This submission further includes select results collected from CFIB's 2017-2018 Manitoba Budget Survey, which was conducted from October 14 – November 23, 2016 and received 285 responses. We also bring together findings from many other studies conducted by CFIB, including our monthly *Business Barometer*[®] and *Our Members' Opinions* surveys, to provide a comprehensive assessment of Manitoba's small business environment. It is our hope the Manitoba

government will pay close attention to the views of small business owners while developing its 'Made-in-Manitoba Climate and Green Plan'.

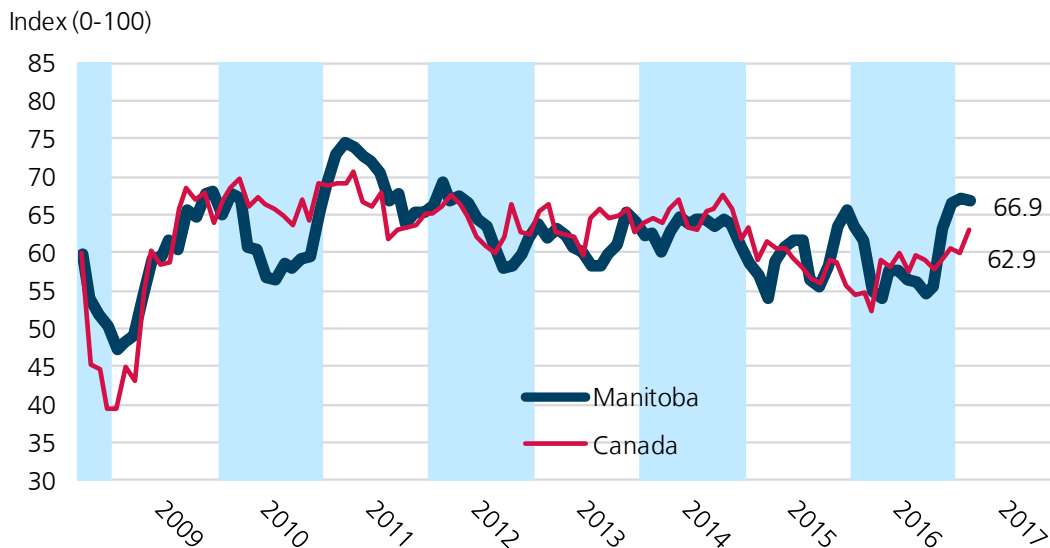
A look ahead in 2017

Manitoba small business optimism improving; hiring intentions remain weak

Every month, CFIB releases the *Business Barometer*[®] - an important indicator of small business confidence. Over time, the *Business Barometer*[®] has proven to be an accurate indicator of economic growth. Measured on a scale between 0 and 100, an index level above 50 means more business owners expect their businesses' performance to be stronger in the next year compared to those expecting weaker performance. Index levels normally range between 65 and 70 when the economy is growing at its potential.

Figure 1:

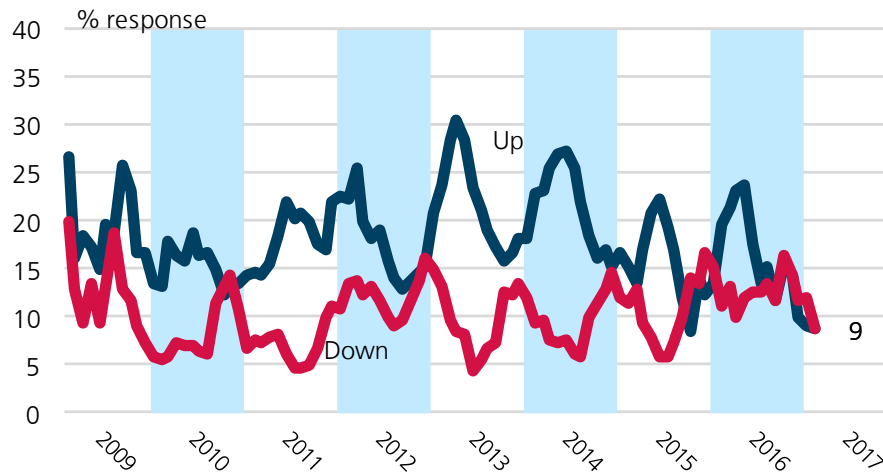
CFIB Monthly Business Barometer[®] Index (Manitoba vs. Canada) Index (0-100)



Source: CFIB Manitoba Business Barometer[®], February 2017.

It is encouraging to see that optimism levels have improved over the past few months for Manitoba entrepreneurs (index of 55.6 in October, to 63.2 in November, to 66.7 in December, to 67.1 in January) (see Figure 1). Business optimism remained strong in Manitoba in February (66.9) and now ranks as the highest in Canada. However, hiring intentions and the state of business health indicators have continued to lag over this time and remain well below the national average. Small- and medium-sized enterprises (SMEs) are concerned about the potential impact that certain policies and regulations could have on their success of their business and their ability to create jobs and remain competitive (see Figure 2).

Figure 2:

CFIB Monthly Full-time Staffing Intentions (Manitoba hire vs. layoff)

Source: CFIB Manitoba Business Barometer®, February 2017.

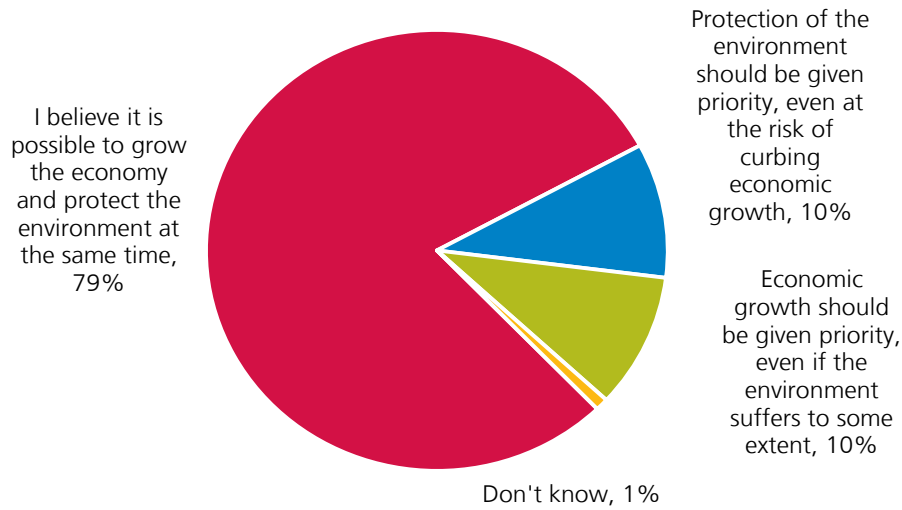
Small Businesses and the Environment

Manitoba's small business owners are often regarded as community leaders, prolific volunteers and engaged citizens. It is reasonable to believe that their views and opinions on environmental issues closely reflect those of all Manitobans. However, government decision makers too often overlook small businesses in favor of responding to the needs of big businesses and consumers. Small businesses represent 98 per cent of all registered businesses in the province and employ over 250,000 Manitobans. They are the backbone of the provincial economy, and environmental policies have a significant impact on them. It is therefore essential that the government understands the opinions, priorities and motives that small businesses have regarding environmental issues.

CFIB's research reveals that small business owners want government to take a balanced approach to environmental policies; respecting the need for environmental protection, while ensuring continued economic growth. According to CFIB's National Environment Survey, a strong majority (79%) of Manitoba small business owners believed that these two goals can be accomplished at the same time (see Figure 3). Only 10 per cent of respondents believed that either condition should be given a priority to the detriment of the other. It is essential then that both the economy and environment be weighed equally when deciding environment policies. These decisions have a profound impact on small businesses' ability to remain productive and create jobs.

Figure 3:

Which of the following statements best describes our own point of view? (select one answer only)

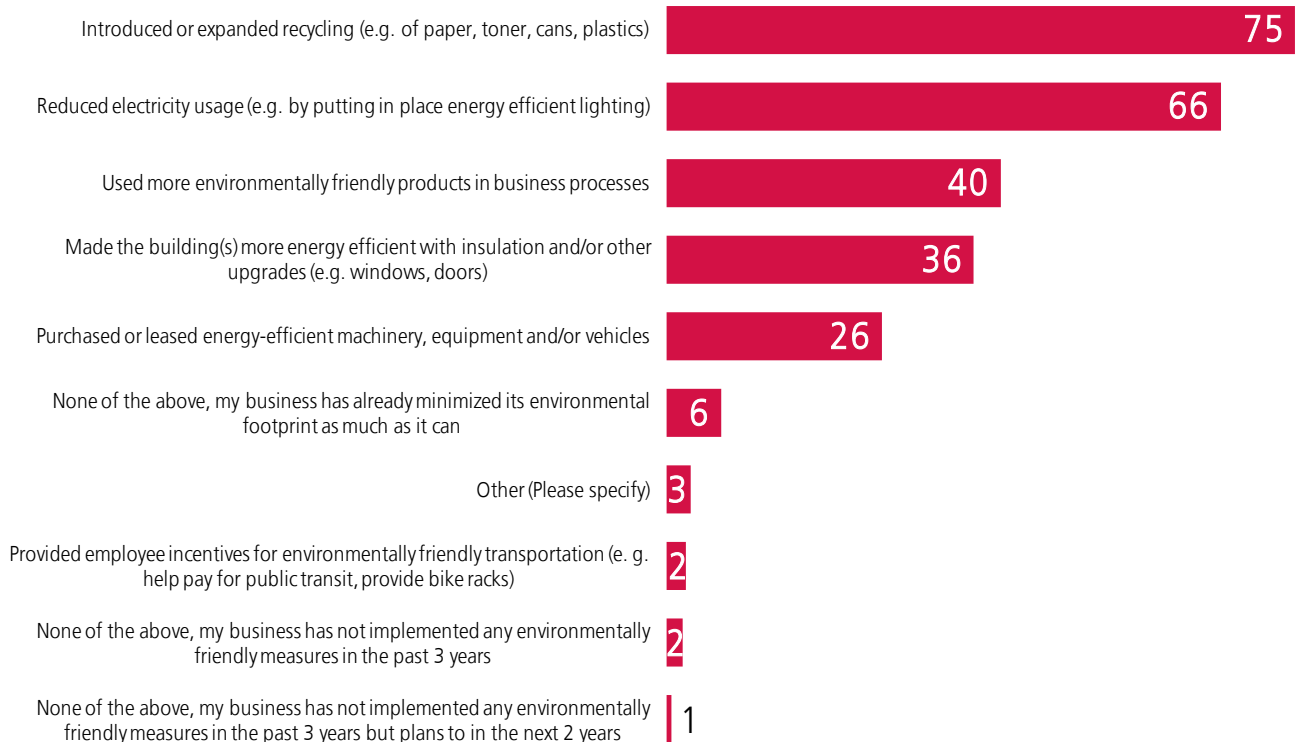


Source: CFIB National Environment Survey, August 2016, Manitoba results, n=223.

Manitoba's small business owners are motivated to be environmentally friendly or "green." Within the last three years, significant progress has been made in their businesses to introduce or expand recycling (75%), reduce electricity usage (66%), use more environmentally-friendly products in business processes (40%), and make building(s) more energy efficient (36%) (see Figure 4).

Figure 4:

What environmentally friendly measures has your business implemented in the past 3 years? (% response)

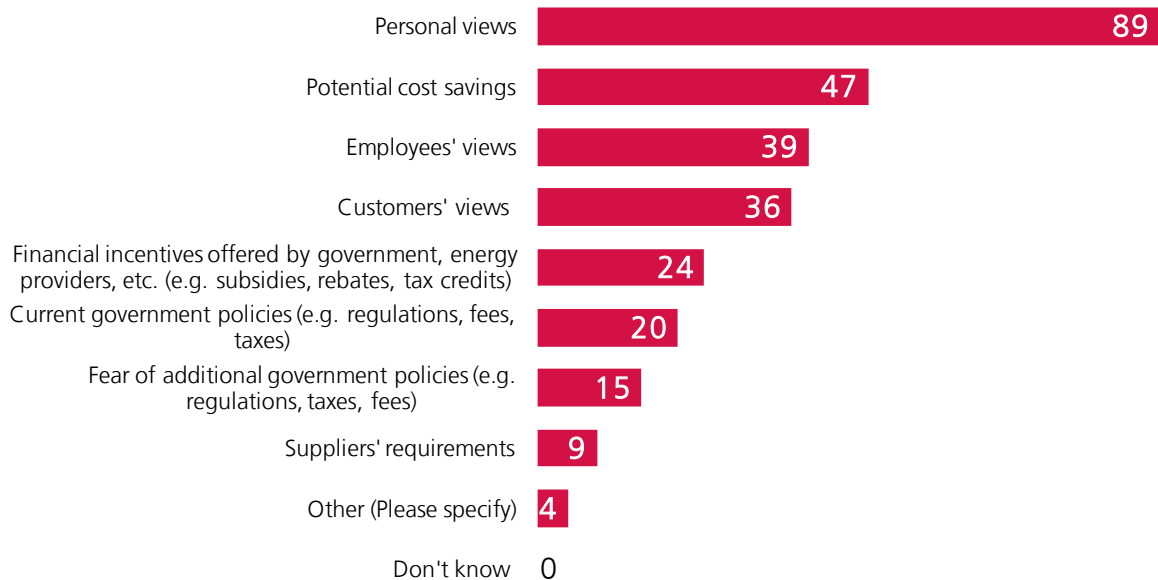


Source: CFIB National Environment Survey, August 2016, Manitoba results, n=223.

When asked what motivated their business to implement environmentally friendly measures, by far the strongest motivator was their own personal views (89%). 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 or grandchildren. Other motivating factors included the potential for cost savings in their business (47%), employees’ views (39%), and customers’ views (36%) (see Figure 5). Only 24 per cent implemented environmentally-friendly business practices for financial incentives offered by government, and just 20 per cent do so to comply with current government policies (e.g. regulations, fees, taxes).

Figure 5:

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



Source: CFIB National Environment Survey, August 2016, Manitoba results, n=223.

In October, 2016, the federal government released the basic framework for the Pan-Canadian Approach to Pricing Carbon Pollution. This national plan mandates each province to implement either a cap-and-trade system or carbon tax beginning in 2018, in order to meet the federal 30% emission reduction target by 2030¹. However, shortly after, Premier Brian Pallister made it clear that Manitoba will not be implementing a cap-and-trade system on carbon emissions². For jurisdictions that decide to implement a carbon tax, including Manitoba, the price on carbon will begin at a minimum of \$10 per tonne in 2018, and will increase by \$10 annually to \$50 per tonne in 2022¹. Importantly, the federal plan mandates that any revenues from a price on carbon must be revenue neutral and will not be passed along to the federal government³.

¹ <http://news.gc.ca/web/article-en.do?nid=1132169>

² <http://www.winnipegfreepress.com/local/pallister-pulls-plug-on-ndps-carbon-cap-and-trade-plan-395729621.html>

³ <http://pm.gc.ca/eng/news/2016/10/03/prime-minister-trudeau-delivers-speech-pricing-carbon-pollution>

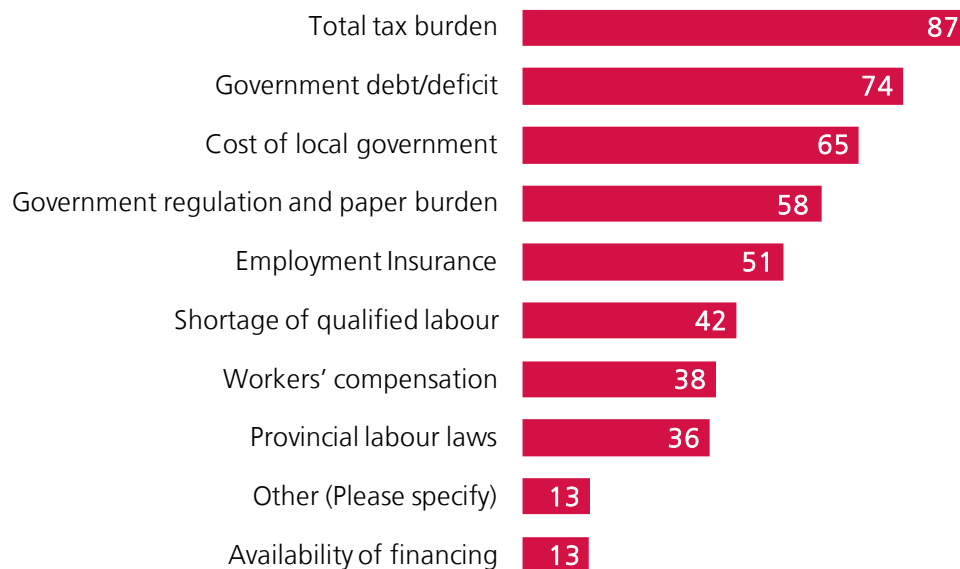
The Detrimental Impacts of a Carbon Tax

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. According to CFIB's *Business Barometer*[®], hiring plans remain weak among small businesses in the province. We know the payroll budgets of every business and the take home pay for Canadian workers will now drop for six straight years, with an EI hike in 2018 and five years of Canada Pension Plan (CPP) premium hikes starting in 2019. It is not surprising that Manitoba business owners are also concerned about their ability to absorb the planned five year implementation of carbon taxes or pricing beginning in 2018.

CFIB fears that the proposed price on carbon would have a detrimental impact on Manitoba's economy. Most Manitoba small business owners cannot afford additional taxes, as they face high levels of taxation already. In fact, total tax burden is the most serious concern to small businesses in the province (see Figure 6).

Figure 6:

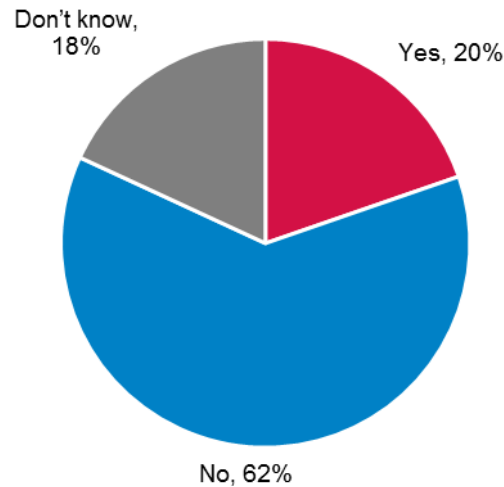
Which of the following are serious concerns for your business? (% response)



Source: CFIB Our Members' Opinions Survey, July to September, 2016, n=321.

Consequentially, a strong majority of small businesses do not support the addition of a carbon tax. Following the announcement of the federal government's Pan-Canadian Approach to Pricing Carbon Pollution, CFIB surveyed its Manitoba members to determine their views of the announced plan. When informed and surveyed, 62 per cent of Manitoba's small business owners did not support the proposed plan and price on carbon (see Figure 7). Only 20 per cent supported the plan, and 18 per cent did not know whether they supported the plan or not.

Figure 7:

Do you support the federal government's proposed carbon price plan beginning in 2018 in Manitoba?

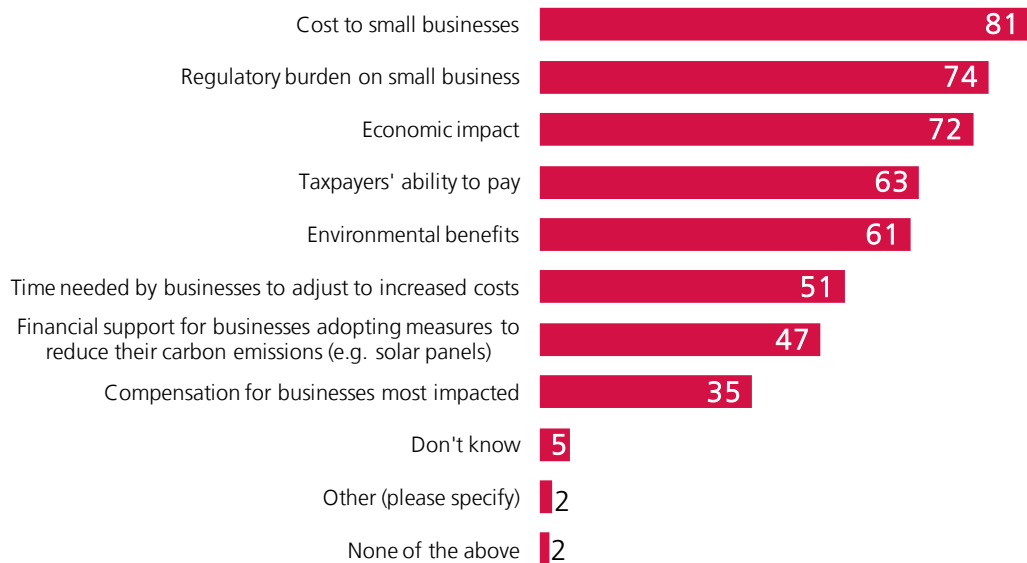
Source: CFIB, 2017-18 Manitoba Budget Survey, November 2016, n=285.

The proposed price on carbon could have a detrimental impact on Manitoba's economy; with significant impacts to the province's small businesses that lack the financial and administrative resources to accommodate such dramatic changes. To better understand the complex impacts of a carbon tax, 81 per cent of Manitoba business owners believed the government should first consider the cost to small businesses (see Figure 8). Another 74 per cent wanted the government to consider the regulatory burden that environmental policies could impose on their business. Seventy-two per cent believed the economic impact of a carbon tax should be assessed, followed by 63 per cent who believed the taxpayers' ability to pay should be considered.

Importantly, small businesses understand that 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. Furthermore, before implementing such policies, there should be clearly stated goals that can be measured and reported on regularly to evaluate success.

Figure 8:

Which of the following should government consider before implementing a mechanism to establish a price on carbon emissions (e.g. carbon tax, cap-and-trade system)? (% response)



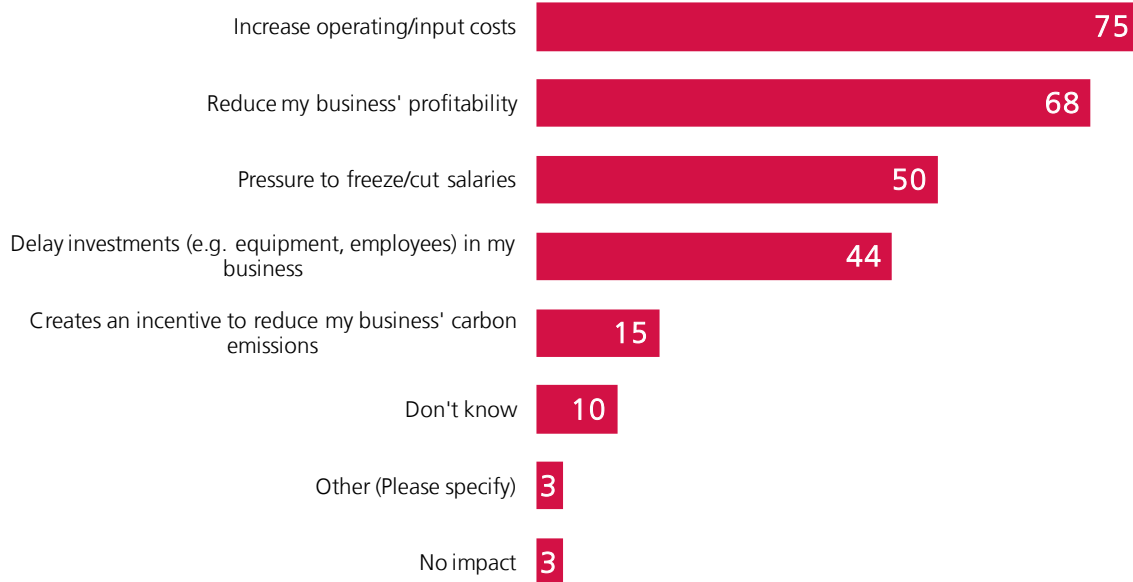
Source: CFIB National Environment Survey, August 2016, Manitoba results, n=223.

When asked what impact the increased costs from carbon pricing would have on their business, 75 per cent said it would increase their operating or input costs. Another 68 per cent feared that it would reduce their profitability, which could lead to higher prices or fewer investments in the business. Importantly, nearly half of all respondents said that it would put pressure on them to freeze or cut their employees' salaries, and 40 per cent said they would delay investments (see Figure 9).

Just 15 per cent of business owners believed that a price on carbon would create an incentive to reduce their business' carbon emissions (see Figure 9). This is understandable as the majority of business owners are motivated to help the environment and reduce emissions because of personal reasons.

Figure 9:

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



Source: CFIB National Environment Survey, August 2016, Manitoba results, n=223.

The increasing paper burden from a carbon tax or cap-and-trade system can also have a negative impact on small businesses. In Manitoba, paper burden costs small businesses \$1.2 billion annually, of which \$360 million is considered red tape. The provincial government has made significant progress to measure, report and reduce red tape affecting businesses, among others. However, increasing environmental regulations and implementing a price on carbon could negate much of the necessary red tape reduction progress made to date.

Many business owners have also voiced concerns about an inability to remain competitive within the global economy if a carbon price is implemented in Manitoba. As a province that relies heavily on trade, it is necessary to remember that many competing businesses and jurisdictions may not face the same financial constraints. In particular, the results of the U.S. election have created many uncertainties around the new administration's climate change policy intentions. Some believe that the new administration may not impose as stringent environmental policies as the Canadian government.

United States remains Canada's largest trading partner, including for SMEs: one fifth of CFIB members export to and almost 60 per cent import goods and services from the U.S.⁴ In Manitoba, for example, agriculture represents a considerably higher percentage of provincial GDP than in most other provinces. A carbon tax will not only significantly impact carbon-heavy industries like agriculture, but it will be difficult for farmers to pass costs on to consumers while competing with producers in the United States.

Businesses that rely on machinery and heavy equipment, such as the transportation and agriculture sectors, will see their input costs rise, which could limit the investments they are able to make in their businesses.

⁴ CFIB, Beyond the Big Border, January 2016

Prior to implementing any new environmental policies, the Manitoba government must demonstrate that incoming policies will provide the desired benefits for the environment, while accurately assessing the impacts to the provincial economy. Small business owners strongly support evidence-based policies to ensure the validity of these policy objectives and outcomes. Results from the CFIB's National Environment Survey show that 85 per cent of Manitoba's small business owners believed that there should be strong evidence that any environmental policy has environment benefits before it is implemented. Furthermore, 82 per cent of respondents believed that any environmental policy should have clearly stated goals that can be measured and reported regularly to evaluate success. Evidence-based policy making must include transparent objectives that can be monitored and evaluated to ensure that governments meet their objectives for both the environment and the economy.

Mitigating the Detrimental Impacts of a Carbon Tax

Best Government Approaches

Clearly, a strong majority of small business owners do not support implementing a price on carbon or carbon tax in Manitoba, and the results of such policies would have detrimental impacts on the economy. It is therefore essential that the provincial government reconsider its support of the federal government's proposed plan before proceeding with any such policies.

Instead, the government should focus on ensuring that existing policies and programs are being used as effectively as possible. According to CFIB's National Environment Survey, when asked which government approaches to dealing with environmental issues they favour, 91 per cent of Manitoba SMEs said that they somewhat or strongly supported government policies that would help to raise awareness on existing energy efficiency measures they can implement in their business. As a lack of information is often a barrier for SMEs, small business owners are looking to governments to provide them with additional plain-language resources and tools that can enable them to further reduce their emissions. It is also important to note that the introduction of a price on carbon will further limit a small business' ability to invest new technology and procedures to limit their carbon footprint.

Revenue Neutrality

In consultation with the Manitoba government, CFIB surveyed small business owners to determine how, if necessary, the provincial government should spend any revenues generated by the federal government's proposed carbon price plan. Although businesses do not support the proposed plan, several tax measures were recommended to reinvest the revenues to help offset the negative impacts of a carbon tax. It is important to remember that any reinvestments from a revenue neutral carbon tax would only help mitigate these negative impacts, not just help fulfill the government's commitment to improve the province's tax competitiveness.

According to the survey, the majority of small business owners support reducing the Provincial Sales Tax (PST) (58%) and reducing personal income taxes (57%) to reinvest the carbon tax (see Figure 10). This is not surprising as many businesses would be forced to increase prices for consumers, if possible, to offset higher input costs. If a carbon tax is deemed necessary, business owners would want the revenue generated to be used to reduce the PST.

Figure 10:

As a business owner, how should the Manitoba government spend any revenues generated by the federal government's proposed carbon price plan? (% response)



Source: CFIB, 2017-18 Manitoba Budget Survey, November 2016, Manitoba results, n=285.

Importantly, a strong majority (70%) of business owners supported using the revenues from a carbon tax to help reduce provincial debt. This is not surprising as business owners have consistently ranked government debt/deficit as their second highest priority, as they understand well that today's deficits are tomorrow's tax increases (see Figure 5). In fact, a strong majority of Manitoba small business owners support the province returning to balanced budgets by 2020; much sooner than the projected 2024 timeline.

As mentioned previously, if the government proceeds with a carbon tax, it must be mindful of the impacts to small businesses when implementing its revenue neutral strategy. It is essential that any carbon pricing mechanism and environmental policies implemented are not adding to the paper burden already facing small businesses. Furthermore, the government must work to minimize the growth in government and administration to deliver these carbon policies, so that all revenue from the carbon tax actually offsets the negative impacts to the economy.

Lastly, it is essential that any revenue neutral process be completely transparent to the taxpayer.

Small business recommendations to Manitoba's Climate and Green Plan Consultation

Clearly, a strong majority of small business owners do not support implementing a price on carbon or carbon tax in Manitoba, and the results of such policies would have detrimental impacts on the economy and our overall competitiveness. It is therefore essential that the provincial government reconsider its support of the federal government's proposed plan before proceeding with any such policies. Instead the government should focus on:

- ▶ Improving participation and access for existing government policies and resources to reduce Manitoba's environmental impact;
- ▶ Educating small business owners on existing energy efficiency measures and associated costs savings, and evolving best practices to help them reduce their environmental footprint.

Only if the government determines it must proceed with a carbon price plan, it should develop environmental policies that carefully consider the unique situation and priorities of Manitoba's small business owners:

- ▶ Ensure an evidenced-based approach when implementing new environmental policies and carefully consider any potential impacts on SMEs and the economy prior to implementation. These studies should be publicly available.
- ▶ Ensure continued transparency around new environmental policies by measuring and publicly reporting the impacts on both the environment and the economy.
- ▶ Ensure that any carbon-pricing measures are revenue-neutral and the government reinvests these revenues in accordance with small business priorities (see Figure 10), which would help offset the negative impacts.
- ▶ Any revenue generated by a new carbon price plan must be separate from general government revenues to ensure they are reinvested in mitigating measures, and transparent to the public.
- ▶ Minimize the regulatory burden to small businesses for any new environmental policies.
- ▶ Limit the growth in government and administration to deliver any new environmental policies, so that all revenue from a carbon price plan is used to offset the negative impacts.
- ▶ Ensure that, despite exemptions under section 9(2) of the proposed *Fiscal Responsibility and Taxpayer Protection Act*, a tax referendum takes place if the province of Manitoba pursues increasing the price associated with carbon above minimum federal carbon price requirements.