

Helping Industries and Communities Transition to a Net Zero Economy

Description

Since the introduction of the federal carbon tax in New Brunswick, Ontario, Manitoba and Saskatchewan on April 1, 2019, businesses risk being unable to make the transition to a net-zero economy while remaining prosperous. Certain industries are more exposed to the impacts of a carbon tax due to a variety of factors, and as such they are at risk of subsidizing other communities and industries at the cost of investing in technologies that would reduce their own carbon footprint. This economic 'drainage' could result in a national failure to meet emissions reduction targets.

Background

On April 1, 2019, the federal carbon tax came into effect as a backstop measure in those provinces that did not have a carbon emissions reduction program in place: Ontario, Manitoba, New Brunswick, and Saskatchewan. The legislation imposes a price of fifty dollars a tonne in 2022 and is set to increase by fifteen dollars a tonne each year until 2030.¹

The Canadian Chamber of Commerce supports carbon pricing as a policy to combat climate change, but it must be implemented in a fair and effective way.² The federal government's stated purpose of reducing the country's carbon emissions to combat climate change is an admirable goal, but the legislation, as designed, has gaps that could risk that end goal.

The federal government's current plan is to return the revenue collected under the carbon tax to families via a Climate Action Incentive Payment (CAIP), but this approach is misguided. The most effective way to reduce carbon emissions is not just to impose a carbon tax, but to use the proceeds of that tax to invest in technologies to help businesses move to a net-zero economy.

The industry is concerned that the carbon tax could be an economic drain for them. Businesses pay directly into the federal carbon output-based pricing system, which acts as an additional cost of business at a time when our economic competitors are reducing regulatory burdens and corporate taxes.

Because there is no connection between what an industry or a region of a province pays into the carbon tax and the reinvestments of these proceeds, there is a likelihood that some industries and communities will see a net economic loss and others will see a net economic gain. In effect, there is a risk that those industries that are most exposed to carbon emissions may end up subsidizing those who are least exposed and ultimately failing to effectively curb the country's carbon footprint. The Government of Canada needs to commit to tying the reinvestment of carbon tax proceeds not just to the families in the province from where the tax was collected, but also to the region and the industries from whom it was collected to ensure the program does not penalize certain industries or regions and reward others at their expense.

Energy-intensive industries are at high risk of 'economic drain' and will require the dedicated support of the government to help reach the province's emissions targets. These industries will pay significant fees for carbon emissions while facing major technological hurdles to reducing their carbon emissions – hurdles which will take millions of dollars and many years to overcome.

While they are paying these costs, there is a real risk that the proceeds from the carbon tax will be directed away from their industry and offer little support in the costly development of net-zero technologies. Energy-intensive industries may never be able to transition to a net-zero economy and may simply leave Canada or disappear, along with the jobs they provide. Government must also take into account the time necessary to research, develop, and implement emissions reduction technology. Government must ensure that exposed industries are able to develop and implement carbon reduction technologies by recycling revenues into these same industries.

The Canadian Federation of Independent Business states that businesses are expected to contribute 50 percent of the burden of the carbon price, but are only getting seven percent of the rebates. 90 percent of the federal carbon-tax revenue is going to individuals through income-tax rebates.³ Ottawa collected \$719.8-million in fuel-charge revenue from Ontario, Manitoba, Saskatchewan and Alberta in fiscal 2019-20 and 2020-21 but just over 14 percent of that \$719.8-million pool of money was directed to specific projects in those four provinces, with the remaining \$618-million waiting to be spent in the future.⁴

While the cost pass-through as a result of the carbon tax will be mitigated for sectors under the federal OBPS, the reduction in competitiveness pressures will not be as large as the tax rebate, and for some firms, it may not be reduced by much at all. Overall, the impact of the carbon tax will vary by sector. Sectors that are more trade-exposed are less likely to pass cost increases to consumers. These sectors (and the firms within them) have to absorb the added cost, which results in lower profits, undermined competitiveness, and loss of investment.⁵

The carbon tax itself acts as a price incentive to develop net-zero technology, but it should also be accompanied by financial investments by the government to help innovation. For Canada to reduce its carbon footprint and meet its international climate change obligations, the federal government should prioritize investments in developing technologies to help the industry transition to a net-zero economy.

Recommendations

That the Government of Canada:

1. Direct a majority of the revenues from the carbon tax towards efforts that directly facilitate businesses' transition to a net-zero economy, such as investments in net-zero processes and technology; and
2. Ensure that carbon tax proceeds are reinvested proportionately back into the industries from whom they were collected to ensure those industries are able to transition to a net-zero economy

Endorsements

The Natural Resources and Environment Committee supports this resolution.

Submitted By: Greater Sudbury Chamber of Commerce

Supporting Organizations: North Bay and District Chamber of Commerce, Sault Ste. Marie Chamber of Commerce, Timmins Chamber of Commerce and Thunder Bay Chamber of Commerce.
