



THE WINNIPEG CHAMBER OF COMMERCE

CARBON PRICING POLICY

**AS APPROVED BY THE BOARD OF DIRECTORS
MAY 25, 2017**



BACKGROUND

The Winnipeg Chamber of Commerce recognizes that climate change poses a serious economic and social threat. The National Roundtable of the Economy and the Environment estimates that under conditions of rapid warming, the cost to Canada’s economy ranges between 21 and 91 billion dollars a year by 2050 (NTREE, 2011). Between 2010 and 2080 the cumulative costs to Manitoba’s economy, one of the most climate change exposed regions of the country, are between 5 and 33 billion dollars. The report acknowledge that the expense estimates are conservative, and that “costs could be not just higher, but much higher”.

Even if emissions were to be reduced to zero this century, the Organization for Economic Cooperation and Development (OECD) estimates that the cost to GDP would still be in the range of 1-6% over the next century. The OECD estimates that damages in the range of 12% or higher are more likely given the non-linear feedbacks of environmental damage, and the continuing climb in emissions.

Table of select climate change impacts (OECD, 2015)

AGRICULTURE	Changes in crop yields (incl. cropland productivity and water stress) Livestock mortality and morbidity from heat and cold exposure Changes in pasture- and rangeland productivity Changes in aquaculture productivity Changes in fisheries catches
COASTAL ZONES	Loss of land and capital from sea level rise Non-market impacts in coastal zones
EXTREME EVENTS	Mortality, land and capital damages from hurricanes Mortality, land and capital damages from floods
HEALTH	Mortality from heat exposure (incl. heatwaves) Morbidity from heat and cold exposure (incl. heatwaves) Mortality and morbidity from infectious diseases, cardiovascular and respiratory diseases
ENERGY DEMAND	Changes in energy demand for cooling and heating
TOURISM DEMAND	Changes in tourism flows and services
ECOSYSTEMS	Loss of ecosystems and biodiversity Changes in forest plantation yields
WATER STRESS	Changes in energy supply Changes in availability of drinking water to end users (incl. households)
HUMAN SECURITY	Civil conflict Human migration
TIPPING POINTS	Large scale disruptive events

The “Pan-Canadian Framework”

To deal with these costs, the federal government has initiated a “Pan-Canadian Framework on Clean Growth and Climate Change.” Eight provinces have agreed to (a) put a price on carbon; (b) take complementary climate actions (including increasing efficiency standards and improving building codes); (c) take measures to adapt and build resilience to the impacts of climate change, and; (d) take actions to support clean technology development.



Highlights:

- Sets a greenhouse gas (GHG) emissions target of 30% below 2005 levels by 2030.
- The federal government imposing a “carbon pricing benchmark” of \$10 a tonne in 2018.
- The carbon price rising by \$10 a year to reach \$50 a tonne in 2022.
- Provinces with cap and trade systems that have fluctuating prices must demonstrate that they have reduced emissions equivalent to what would be achieved by a tax.
- Jurisdictions that do not implement their own carbon pricing policy will be subject to a federal carbon price.
- All revenues from the carbon pricing will be returned to their jurisdiction of origin.

British Columbia and Alberta have adopted a carbon tax while Ontario, Quebec and Nova Scotia have opted for a cap-and-trade system. Quebec and Ontario are linking their system to California’s market. Nova Scotia is instead opting for a system on its power, transport and building sectors, but will not trade with other jurisdictions.

Two provinces have chosen not to sign – Manitoba and Saskatchewan. Saskatchewan has argued that applying carbon pricing in the current environment would undermine the provincial economy. Saskatchewan’s climate plan refers to a levy on large emitters once the economy improves. However, the Saskatchewan government has indicated that it is willing to challenge a federally-imposed carbon tax up to the Supreme Court.

On May 18, 2017, the Federal Government released a technical paper on what the federal carbon pricing backstop will look like. The technical paper closely mirrors the system Alberta has put in place. In the paper it is projected that a carbon levy will increase the price of gasoline by 2.33 cents a litre in 2018 at \$10 a tonne, rising to 11.63 cents a litre in 2022 assuming \$50 a tonne.

The paper outlines as well what is being termed a “carbon output-based system” or cap and trade. Emissions intensity standards would be set for industrial facilities. Those that emit less than the standard will receive credits that they can bank or trade. Facilities above the limit will need to acquire credits or pay the carbon price. The threshold is 50 kilotonnes of CO₂ a year, and commercial and public facilities would be exempted. Smaller emitters could opt into the system if they so desire.

Fuel used by registered farmers in certain activities would be exempted.

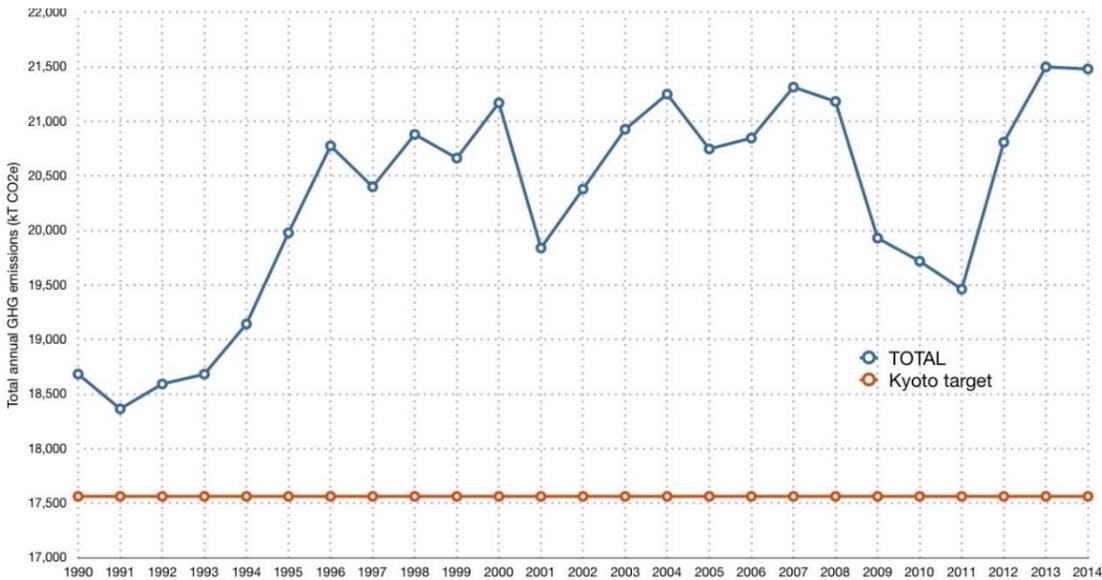
A variety of actions have been taken to-date in order to improve Manitoba’s emissions output, including the following:

- Investments in wind and geothermal energy
- A ban on the use of coal and petroleum coke (for energy production and other purposes)
- Investment in rapid and active transportation
- Encouraging sustainable farm practices
- Expansion of the Red River floodway
- Conservation efforts



MANITOBA'S GHG EMISSIONS

Manitoba's emissions 1990-2014

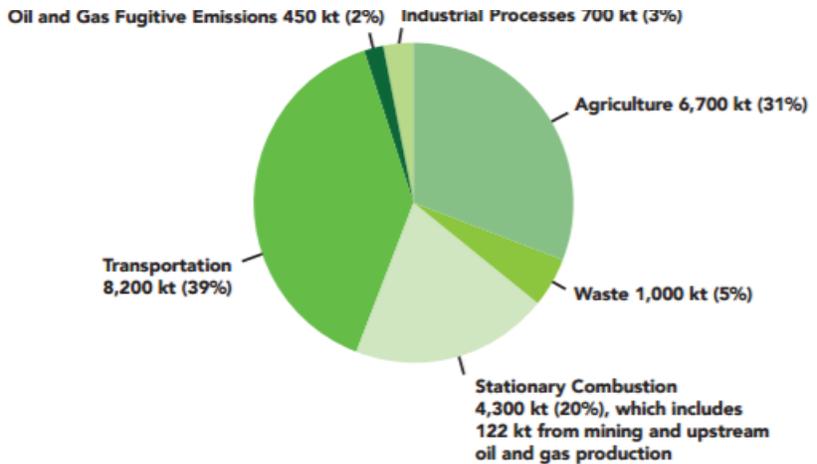


Data source: Environment Canada, Canada's Greenhouse Gas Inventory. <http://www.ec.gc.ca/gas-gbp>

Under the previous administration, Manitoba set a target to reduce emissions below 6% by 1990. Our GHG emissions are approximately 15% higher today than they were in 1990, and 22.3% above the level to comply with the Kyoto Protocol.

GHG emissions generally tend to rise or fall with economic and population growth, but Manitoba's hydroelectricity makes our economy relatively less carbon intensive than much of the country. Manitoba's largest sources of GHG emissions are the transportation and agriculture sectors (with "stationary combustion," largely comprising of buildings coming in third), warranting an approach that must address the higher impact on those sectors.

Manitoba's emissions profile (2014, Manitoba Government)





EXPOSURE TO CLIMATE CHANGE

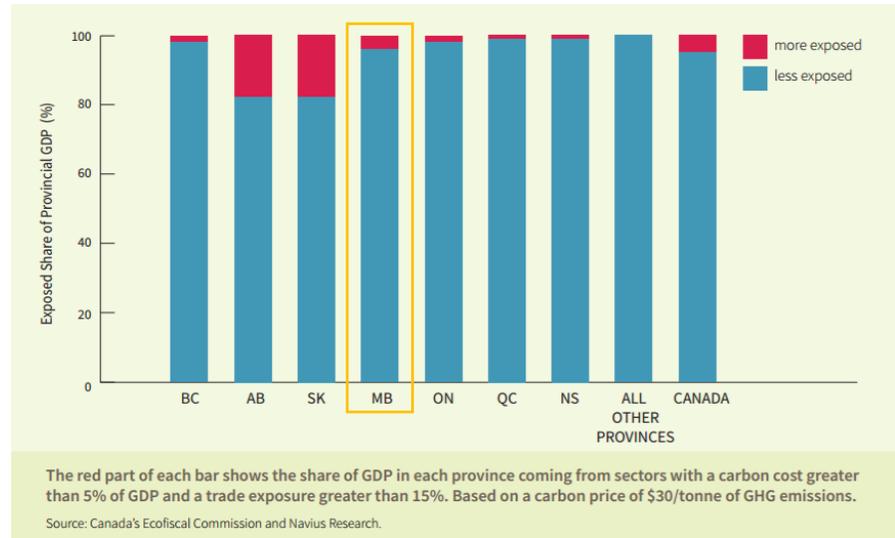
Vulnerability to a price on carbon

While the economy is vulnerable to climate change, some sectors of the economy are also vulnerable to a higher carbon price – particularly agriculture and transportation.

The EcoFiscal Commission estimates that less than 5% of Manitoba’s economy is vulnerable to a carbon price increase (assuming \$30/tonne).

Manitoba is fortunate to have a renewable grid powered by hydro, but reducing GHG emissions from transportation and agriculture is challenging.

Manitoba’s economic vulnerability to a price on carbon



The potential implementation of a carbon price provides the opportunity for the province to establish a tax commission to review the taxation system. Manitoba’s tax system has been without a comprehensive review for 17 years, and a price on carbon will provide the province with potentially hundreds of millions of dollars a year in additional revenue. A review of the province’s tax system is thus timely, to ensure it remains both effective and competitive and to fully assesses the impact of a carbon price within the taxation ecosystem.

OPTIONS FOR “REVENUE RECYCLING”

While significant attention has been given to the level at which any potential carbon price should be set, the critical determinant of success for Manitoba is the revenue recycling policy associated with the carbon price.



The EcoFiscal Commission cites at least six main options for revenue recycling, each with its own set of economic and political trade-offs. The six key recycling options include:

1. Transferring revenue to households
2. Reducing existing tax rates
3. Investing in emissions-reducing innovation and technology
4. Investing in critical public infrastructure
5. Reducing government debt
6. Providing transitional support to industry

Among the six potential options, the EcoFiscal commission has compiled data to model the economic, ecological, and political costs and benefits associated with each of the options.

Trade-offs for revenue recycling (EcoFiscal Commission, 2015)

Table 5: Summary of Trade-Offs for Revenue-Recycling Options

	Environmental Impacts	Economic Impacts	Competitiveness Impacts	Household Fairness	Public Acceptability
Household Transfers	Neutral	Neutral	Neutral	Positive	Somewhat positive
Income-Tax Cuts	Personal	Somewhat positive	Neutral	Somewhat negative	Somewhat positive
	Corporate	Positive	Somewhat positive	Somewhat negative	Somewhat positive
Infrastructure Investments	Somewhat positive (depending on investment choices)	Somewhat positive	Neutral	Neutral	Positive
Clean-Technology Investments	Positive	Neutral	Somewhat positive	Neutral	Positive
Transitional Support to Industry	Negative	Somewhat positive	Positive	Neutral	Neutral
Debt Reduction	Neutral	Positive (with high debt)	Neutral	Positive (intergenerational)	Neutral

Collected revenues can be recycled in ways that deploy technology and scale up best practices for emissions reduction. While there is often much hope placed in the development of new low-carbon technology, there are some tools available today that would accelerate the transition to a low-carbon economy. From urban densification strategies to the adoption of consumer electric vehicles and more efficient waste management, there are steps we can take immediately to reduce emissions. The federal government has emphasized money for complementary climate measures throughout the remainder of the Framework. While it’s up to each jurisdiction to consider how they wish to recycle revenues based on its own economic and political reality, some of the trade-offs outlined by the EcoFiscal Commission could guide decision-making in Manitoba.



THE WINNIPEG CHAMBER RECOMMENDS THE FOLLOWING:

1. The Province of Manitoba proceed with a ‘made-in-Manitoba’ carbon pricing program which reflects Manitoba’s economic and social realities, rather than accept a federally-imposed, ‘one-size fits all’ system.
2. The Province of Manitoba establish a Tax Commission to review the entire provincial tax system *prior* to the introduction of any carbon price, so as to fully assess the impact of a carbon price within the Manitoba tax ecosystem, as well as the impact vis-a-vis other tax measures.
3. Any carbon price established in Manitoba must strongly demonstrate the following principles:
 - a. *Competitiveness*: ensures Manitoba does not become uncompetitive in relation to our primary trading partners in Canada and the United States. This is especially pertinent in trade-exposed sectors such as transportation, manufacturing and agriculture.
 - b. *Responsive, Responsible Pricing*: the carbon price be capped at a level at which any further increases, according to independent publicly-available modelling, demonstrate negative economic repercussions and diminishing GHG reductions.
 - c. *Purposeful*: establishes that the sole purpose of a carbon price and program is the reduction of carbon emissions, rather than the operational requirements of government. Revenues generated need to support the ultimate goal of reducing GHG emissions, and must not go towards deficit or debt reduction.
 - d. *Causal Relationship*: shows a clear, cause and effect relationship between carbon pricing and the reduction of GHG emissions in Manitoba.
 - e. *Independent, Open and Transparent*: establishes an independent review mechanism that monitors and reports publicly the efficiency and efficacy of the carbon price program. This mechanism should allow for recommendations (that include public input) to be brought to government on how to improve the carbon price program.
4. All funds derived from the Manitoba carbon price must be dedicated for revenue recycling and targeted particularly to support the acceleration of Manitoba’s green economy, consistent with a broader provincial economic development strategy. Revenue recycling must serve to maintain our economic competitiveness in key trade-exposed sectors, reduce GHG emissions, and support industry in the creation and adoption of new technologies, in particular ‘made-in Manitoba’ innovations.

Revenue recycling investments are recommended as follows:

- a. Transitional support for Manitoba’s transportation, agriculture and manufacturing sectors, which are the most exposed sectors and the sectors shouldering the largest portion of the carbon price.
- b. Clean technology investments to nurture the growth of Manitoba’s burgeoning clean-tech sector and to further the integration of innovative programs and technologies that will reduce GHG emissions. Examples include work done by the Manitoba Trucking Association that show how a \$25,000 investment in energy efficiency technologies can reduce the fuel usage of a long-haul truck by 22% a year, the equivalent of taking over seven cars off the road.



- c. Tax relief for low-income Manitobans.
 - d. Infrastructure investments that will reduce GHG emissions, such as flood mitigation and interchanges on major trucking routes.
5. Any revenue that the provincial government generates from carbon pricing must be collected, distributed and reported on publicly, in an open and transparent manner.
6. Focus be given to seeking out other means to reduce GHG emissions beyond a carbon pricing program, such as ideas recommended in The Winnipeg Chamber of Commerce's 2016 Manitoba BOLD document, notably:
 - a. Adopt targets for the electrification of provincial and municipal vehicle fleets
 - b. Incent more fuel efficient non-commercial vehicle purchases by implementing a feebate system
 - c. Establish specific GHG emission targets for all environmental regulations
 - d. Develop a long-term plan for the promotion of procurement practices, green transportation infrastructure and transport modes that have reduced ecological footprints
 - e. Increase industry engagement on environmental initiatives to ensure actual positive impact without unneeded economic penalty
 - f. Undertake a public review of all provincial stewardship entities

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