Business Council of Canada | Conseil canadien des affaires

The Honourable John P. Manley, P.C., O.C.
President and Chief Executive Officer

L'honorable John P. Manley, C.P., O.C.
Président et chef de la direction

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The Honourable Catherine McKenna, P.C., M.P.
Minister of Environment and Climate Change
Environment and Climate Change Canada
200 Sacre-Coeur Boulevard, 2nd Floor
GATINEAU, Quebec
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Dear Minister McKenna,

I am writing on behalf of the Business Council of Canada to provide views in response to the technical paper on a federal carbon pricing backstop. As leaders of Canada's largest companies, we share the government's goal of achieving meaningful and sustainable progress in reducing greenhouse gas (GHG) emissions while also making a responsible contribution to the global effort. Indeed, our member companies have continuously demonstrated their commitment to reducing GHGs and investing in innovative technologies that can move our economy onto a lower-carbon trajectory.

The Business Council of Canada endorsed carbon pricing a decade ago and our rationale was simple. Price signals are the clearest and most effective means to influence behaviour. Higher prices on carbon give consumers an obvious incentive to reduce their energy consumption. They also change the economic calculus for business, tipping the balance in favour of switching to lower carbon fuels or making technology investments that reduce emissions.

We also argued strongly for a coherent national approach to carbon pricing. Since that time of course, provinces have established a variety of carbon pricing schemes, encompassing carbon taxes, cap-and-trade and hybrid versions. Some variation in provincial policies may be necessary to deal with different regional circumstances. However, the lack of a common approach imposes a higher cost per tonne of emissions reduced. It also forces Canadian companies to contend with conflicting obligations, as well as multiple reporting and compliance regimes.
While we are broadly supportive of the approach to carbon pricing outlined in the technical paper, we offer the following comments on some specific aspects:

Output-based pricing system for industrial facilities. We applaud the government's efforts to ensure, as much as possible, that the carbon pricing regime does not put Canadian firms at a competitive disadvantage to firms in other jurisdictions which may not face carbon pricing in the foreseeable future. To do otherwise would mean market advantage, and emissions, would shift elsewhere. Canadians would pay the price in terms of jobs, growth and government revenue – but with no global environmental benefit. The proposed output-based allocation for large industrial facilities looks like the best way to deal with competitiveness concerns. However, devising a balanced set of performance standards for GHG-intensive and trade-exposed industries will be challenging. We agree with the overall objective to encourage companies to move to less GHG-intensive fuels and technologies. However, care will be needed to ensure the system does not unfairly penalize firms which because of the age of their facility, a lack of access to capital, or unique aspects of their production process, have more limited options for technology upgrading and other emissions-reducing actions. As well, past government policy may have influenced investment and technology choices by firms. And in some sectors there are likely to be a few unique Canadian facilities which do not have a comparator on which to base a "best in class" GHG performance standard. Finally, in assessing the competitiveness impact, it is important to recognize that some firms may not be classified as emissions-intensive, but will be affected by carbon costs passed on through the supply chain.

Supplementing provincial systems that do not meet the federal "benchmark". The technical paper suggests that a federal "top up" will be necessary where a province has adopted carbon pricing but its system does not meet the federal benchmark, either because the price is not as stringent or there is insufficient coverage of GHG sources. Rather than assuming a "top-up" would be necessary, we urge the federal government to work with each of the provinces that may be affected to develop clear and equitable rules around equivalency. It is essential that additional costs and compliance and reporting burdens be kept to a minimum.

Review of carbon pricing. The Pan-Canadian Framework contains a commitment to an "interim" review in 2020 regarding progress in implementing carbon pricing nationally. Equally important is to understand how Canada compares with other jurisdictions with which we compete. We believe a comprehensive review should be undertaken well before 2022, with a focus on understanding the competitive impact on emissions-intensive and trade-exposed industries. By 2022, the federal plan calls for a national carbon price at $50 per tonne of GHG emissions. Yet, it appears unlikely that our most significant competitors will face a carbon price of that magnitude.

Use of carbon pricing revenues. The technical paper leaves open the question of how the revenues raised through carbon pricing should be used. We feel strongly that the federal government should keep its original promise to the provinces, i.e. that any revenue collected under the federal system should be returned to the province in question. If some provinces that have not implemented carbon pricing are concerned about the impact on their citizens and their businesses, they should have the right to decide how to mitigate that impact. We have long maintained that the bulk of carbon pricing revenues should be used to reduce other, more distortionary taxes, namely corporate and personal income taxes. Canadians want to know that the money they pay in carbon fees is making the economy more productive and improving the environment. In that context, adjustments to corporate tax rates can increase Canada's overall tax competitiveness and promote economic growth. This is especially important given that our largest trading partner appears to be moving toward fairly significant corporate tax reform. Targeted personal income tax reductions can reduce the burden on low-income households and those living in remote communities. A portion of the funds should be targeted to promoting the development and adoption of less GHG-intensive technologies.

Carbon pricing versus regulation. As noted above, the Business Council supports carbon pricing as the most effective means to reduce GHG emissions and has endorsed the decision by the federal and provincial governments to make it a cornerstone of the Pan-Canadian Framework. And yet, these same governments seem committed to layering on top several regulations aimed at the same outcome. For instance, the federal proposal for a clean fuel standard would see industrial firms pay the carbon price on the fuel they consume while also potentially having to meet arbitrary standards for reducing the carbon content of their energy use. The cumulative compliance costs for industry would rise with no additional benefit in terms of emissions reduction.

> **Transition provisions**. The paper indicates that the federal backstop will become operational in 2018 if a province has not implemented its own carbon pricing regime by that time. However, it is not clear whether January 1, 2018 is the operational date, nor does it address what transitional provisions may be necessary. At this point in time, several provinces have indicated their intention to adopt carbon pricing but have provided few details on the specifics, nor have they adopted the required legislation and/or regulations. Accordingly, it seems unlikely that they all will be in operation on January 1, 2018.

In closing, I would note that emissions-intensive industries in sectors such as resources and manufacturing are critical to Canada's prosperity. They also will be instrumental in determining the country's success in fashioning an effective, long-term plan to address climate change. A policy framework that combines smart climate policy with maintaining and enhancing the competitive position of our leading industries is essential, since healthy and profitable companies are best able to undertake the investments that produce sustainable reductions in emissions.

Minister, let me reiterate that Canada's business leaders stand ready to work with you and your federal and provincial colleagues in fashioning an effective and coherent national approach to addressing the challenge of climate change.

Sincerely,

c.c. The Honourable Bill Morneau, P.C., M.P.
Minister of Finance

The Honourable Navdeep Singh Bains, P.C., M.P.
Minister of Innovation, Science and Economic Development

The Honourable Jim Carr, P.C., M.P.
Minister of Natural Resources