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Submission to British Columbia's Consultation on the Climate Leadership Plan

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Introduction

To help the government better understand the perspective of small business, the Canadian Federation of Independent Business (CFIB) conducted a survey of nearly 500 small businesses between March 8th and 17th, 2016 for input on the key recommendations from the Climate Leadership Team's (CLT) report (survey in Appendix).

CFIB is a non-profit, non-partisan business association with 109,000 members across Canada, including 10,000 in British Columbia. We are the largest organization in the country exclusively representing the interests of small and medium-sized enterprises (SMEs) to all levels of government.

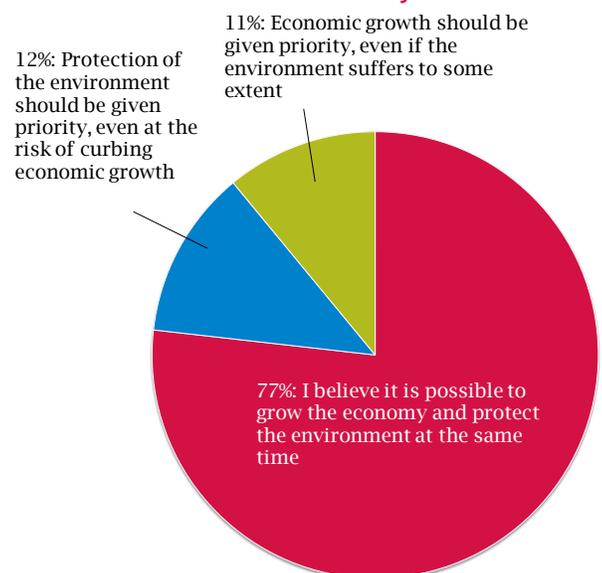
Like other British Columbians, business owners care about the environment and support initiatives that help reduce the negative impact of greenhouse gas (GHG) emissions. A majority (77 per cent) believe it is possible to simultaneously grow the economy and protect the environment (see Figure 1). Ensuring BC residents and businesses have input into helping the provincial government find the right balance is crucial. It is equally important to estimate the economic cost of any new tax. The government must ensure proper analysis is conducted and publicly released before any significant policy changes occur.

This submission will be structured in two main sections:

- Small business perspective on the Climate Leadership Team's recommendations; and
- Small business recommendations for BC to continue to lead climate change policy.

Figure 1

Which of the following statements best describes your own point of view about the environment and the economy?



Source: BC Environmental Consultation survey, March 2016, n=482

Small Business Perspective on the Climate Leadership Team's Recommendations

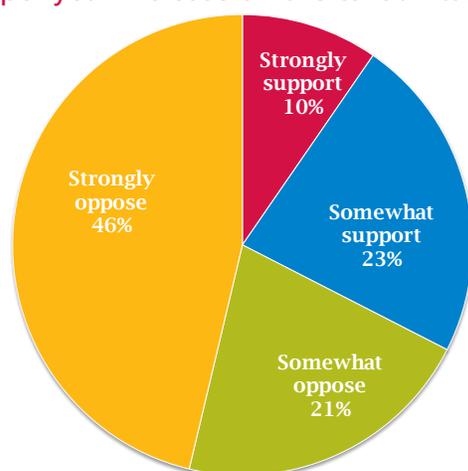
The CLT's mandate is to provide advice on how to continue BC's climate leadership by finding ways to achieve reductions in GHG emissions. The CLT is composed of academics, municipal and provincial politicians, bureaucrats, executives from large corporations and industry associations, First Nation Chiefs, and environmentalists. It is alarming that there was essentially no small business representation in the preparation of the recommendations proposed by the CLT. Small businesses should be consulted on any major policy changes. They are an integral part of the economic fabric of BC: over 98 per cent of all businesses are small, provide half of all private sector employees, and account for one-third of provincial GDP¹. Small business owners are also community leaders, employers and residents. In addition, CFIB research shows they are disproportionately affected by regulations as they do not have the resources of bigger businesses to comply with the myriad of rules, regulations, and taxes from all levels of government².

Their limited resources also mean any consultation needs to provide clear, concise, jargon-free information to allow for an effective understanding of the impacts of potential policy adjustments. Unfortunately, that was not the case in this environmental consultation. The information was hard to understand as the consultation document was lengthy and not in plain language. In addition, the recommendations were often vague, leaving questions about "how, why, and where" up for interpretation by the reader. Notwithstanding these issues, the following are views of entrepreneurs on the recommendations made by the CLT most likely to impact small and medium-sized businesses.

Comment on CLT Recommendation #5: Increase the carbon tax by \$10 per year starting in 2018

Figure 2

To what extent do you support or oppose a \$10 per year increase on the carbon tax?



Source: BC Environmental Consultation survey, March 2016, n=482

While a carbon tax has some support from BC independent businesses, a majority do not believe the increase suggested by the CLT is warranted. Close to half – 46 per cent – of business owners strongly oppose an annual \$10 increase in the tax, with an additional 21 per cent opposing (see Figure 2). BC's carbon tax is already one of the highest in the world, as shown in a recent carbon price comparison by the Business Council of BC³.

The existing carbon tax has taken a toll on many small businesses. When entrepreneurs were asked how a \$30 per tonne of emission carbon tax has impacted their business (see Figure 3):

¹ British Columbia Small Business Profile 2015.

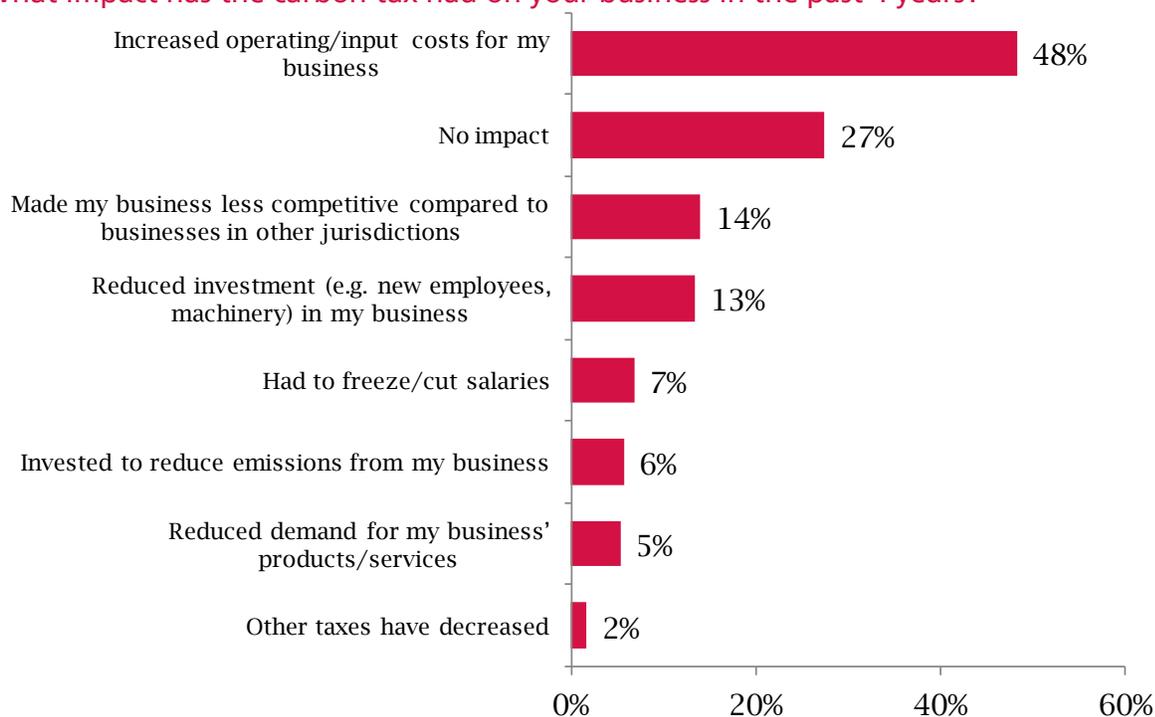
² Canada's Red Tape Report 2015, Laura Jones with Nina Gormanns, Queenie Wong, Marvin Cruz

³ Is the Price Right? A Comparison of Carbon Pricing, Denise Mullen and Jock Finlayson

- Nearly half identified increased costs;
- Only 6 per cent increased investment in technology to reduce their emissions;
- Even though the survey explained the tax was revenue neutral, only 2 per cent said they experienced a decrease in their other taxes; and
- Only one quarter (27 per cent) have seen no impact.

Figure 3:

What impact has the carbon tax had on your business in the past 4 years?



Source: BC Environmental Consultation survey, March 2016, n=482

The results show many SMEs have been negatively impacted by the current carbon tax. Although BC is forecast to lead Canadian economic growth in the next few years, this cannot be guaranteed. The global economic situation is fragile, and weakness in the economies of other western provinces and reduced foreign demand could hinder domestic growth. A rising tax which increases input costs could further impact the economy. BC already has the highest carbon tax rate in the country and in this context the provincial government would be well-served to wait until other jurisdictions catch up. At that point, further consultation is needed to take the temperature on whether or not provincial and federal governments should move towards a unified carbon price. The potential costs to the economy and benefits to the environment should also be carefully measured and considered.

"Rather than adding tax to the already overburdened people of this Province, the government should start to consider offering incentive to change... It should be used to offset taxes on alternative energy, I would think they could eliminate PST on things like solar panels, or geothermal heating"

CFIB Member, British Columbia

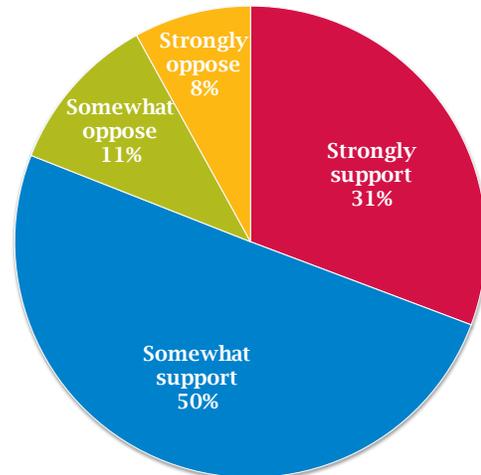
Further, the carbon tax does not appear to have done what it was designed to do, at least in terms of adjusting the behaviour of business owners. For instance, as noted, only 6 per cent invested in their business to reduce emissions. This is in large part due to the prohibitive expense often associated with lower GHG emission technologies.

To help make it affordable, independent businesses overwhelming support the CLT recommendation that the government should provide financial incentives to retrofit buildings to reduce GHG emissions (see Figure 4). This would serve two purposes: (1) reduce emissions and help reduce operating costs, thereby allowing employers to grow their business and create jobs, and (2) continue to invest in new and lower emission equipment.

Independent businesses show some support for alternative methods to address climate change rather than an increased carbon tax (see Figure 5). However, the costs associated with those alternatives need to be measured, with due diligence for return on investment. In addition, new regulations could also impact small businesses in a negative way. Additional consultations on how these recommendations would be implemented would be required. Revenue for these initiatives should be funded from existing revenues and not from tax increases as 79 per cent of entrepreneurs already note their total tax burden impedes growth⁴.

Figure 4

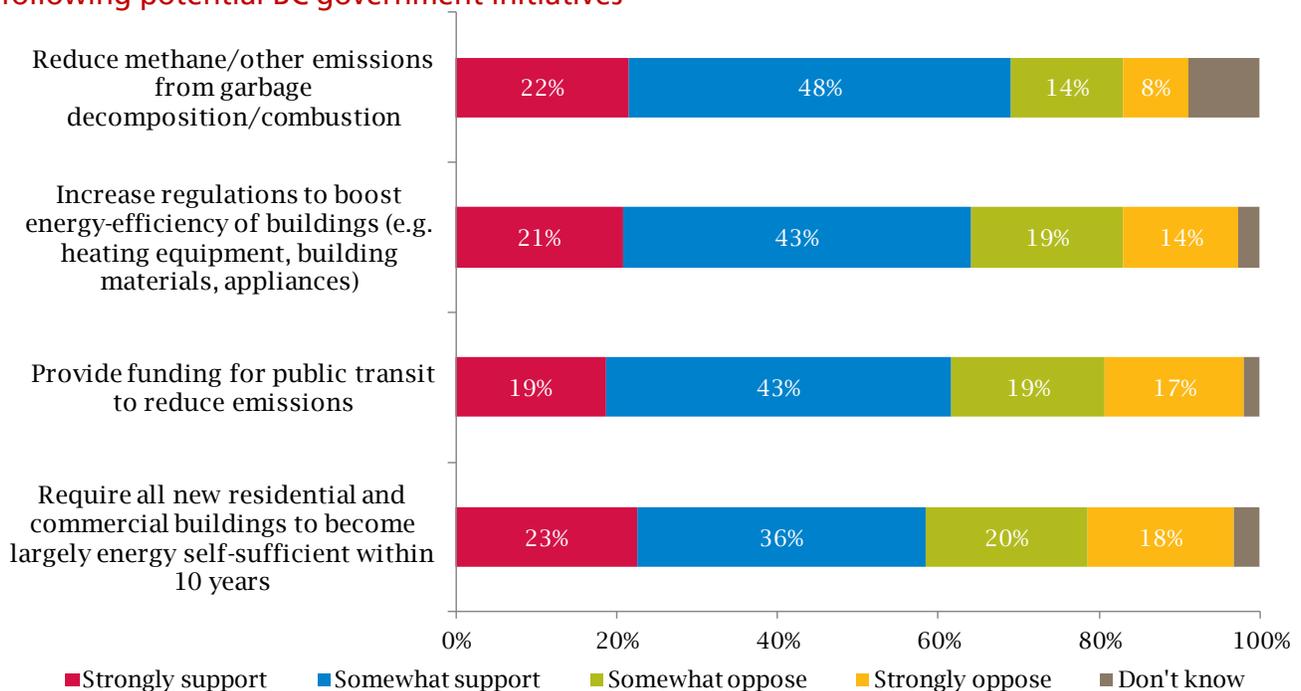
To what extent do you support or oppose providing financial incentives to retrofit existing residential and commercial buildings to reduce emissions?



Source: BC Environmental Consultation survey, March 2016, n=482

Figure 5:

The BC government is reviewing other environmental policy recommendations which could have a direct impact on your business. Please indicate to what extent you support or oppose each of the following potential BC government initiatives



Source: BC Environmental Consultation survey, March 2016, n=482

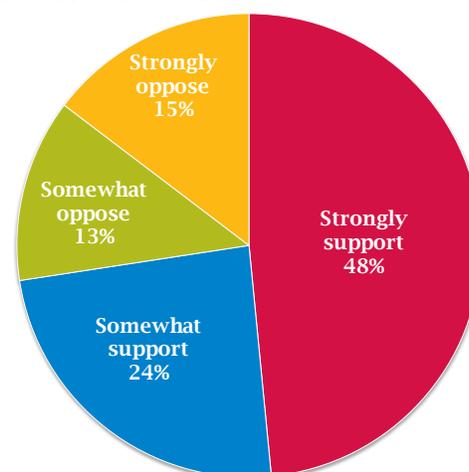
⁴ CFIB: Our Members' Opinion survey, 2015 BC Data, 1,835 responses

Comment on Recommendation #7b, #7c, #23 - Revenue neutrality

When BC introduced the carbon tax in 2008, the government committed to make it revenue neutral. The budget notes: "Revenue neutrality means that there must be tax reductions that fully recycle the estimated revenue from the carbon tax in a given fiscal year."⁵ While some businesses still do not support the tax, this condition allows for broader support as there is a partial offset through other tax breaks and credits. It mollifies some who may consider the carbon tax to be a "tax grab" and are concerned the revenues may be used to fund other government spending projects. Furthermore, it provides some transparency since the government is required to show where the carbon tax revenues are being directed. Forty-eight per cent of small businesses strongly support maintaining revenue neutrality on any increases to the carbon tax, while 72 per cent overall show at least some support (see Figure 6).

Figure 6:

To what extent do you support or oppose the requirement that any additional carbon tax be revenue neutral?



Source: BC Environmental Consultation survey, March 2016, n=482

Figure 7:

Summary of Forecasted Fiscal Impacts from 32 CLT recommendations

Estimated Fiscal Implications of the Recommendations (\$bn unless otherwise mentioned)										
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Rate (\$/t)	30	30	40	50	60	70	80	90	100	110
Scope (Mt) - illustrative, no emissions resp	44	44	44	44	44	44	44	60	60	60
Revenues existing (\$bn)	1.2	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3	1.3
Revenues new (\$bn)			0.28	0.56	0.84	1.12	1.4	2.86	3.22	3.58
Revenues total (\$bn)	1.2	1.3	1.58	1.86	2.14	2.42	2.70	4.16	4.52	4.88
Existing tax cut package:										
corporate \$bn	0.23	0.23	0.23	0.23	0.23	0.23	0.23	0.23	0.23	0.23
personal \$bn	0.21	0.21	0.21	0.21	0.21	0.21	0.21	0.21	0.21	0.21
Low income and rural and Northern \$bn	0.27	0.27	0.27	0.27	0.27	0.27	0.27	0.27	0.27	0.27
New Tax Cut Package										
PST 1% cut			0.9	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Low income household adjustment total			0.27	0.31	0.35	0.39	0.43	0.79	0.85	0.91
Low income/households adjustment new			0.04	0.08	0.12	0.16	0.2	0.56	0.62	0.68
Targeted EITE measures %			31.40%	31.40%	31.40%	31.40%	31.40%	41.00%	41.00%	41.00%
Targeted EITE measures \$bn			0.50	0.58	0.67	0.76	0.85	1.71	1.85	2.00
PST elimination for electricity			0.13	0.13	0.13	0.13	0.13	0.13	0.13	0.13
Total Tax Cuts	1	1	2	2	3	3	3	4	4	4
Net Revenues	0	1	-0.7	-0.5	-0.4	-0.2	-0.1	0.2	0.3	0.5
Technology Fund								0.08	0.15	0.23
Local Government								0.08	0.15	0.23

Source: Climate Leadership Team Recommendations to Government, pg 35, October 2015

⁵ Budget and Fiscal Plan 2008/09-2010/11, BC Government

Therefore, it is concerning that some of the recommendations made by the CLT are not revenue neutral. Recommendations #7b, #7c and #23 would all see carbon revenues used on government expenditures for new programs. This is laid out in the CLT report's "Summary of Forecasted Fiscal Impacts" (see Figure 7). This shows that by 2023 the BC government will have added new revenue to fund technology and local governments.

A majority of small business owners agree with Premier Clark when she recently said, "The problem with carbon taxes around the world has been you dump a new tax onto the economy and it's just adding more tax. We know taxes slow down economic growth, so if you add a carbon tax you have to also minus other taxes. You can't take more money out of people's pockets. I don't think you can build a consensus in this country about environmental policy if you're going to make people poor."⁶ In light of the CLT recommendations, the government needs to re-commit that all revenues from the carbon tax will remain truly revenue neutral.

Incentives for small businesses to invest in energy efficient technology and funding for research on innovative technologies to reduce emissions are supported by business owners. However, the costs associated with this cannot be funded through carbon tax revenues. Revenue neutrality, defined by an equal reduction in taxes for an increase in a different tax, is an integral component of BC's current carbon tax.

Comment on Recommendation #6 – Expand the carbon tax to all GHG emission sources

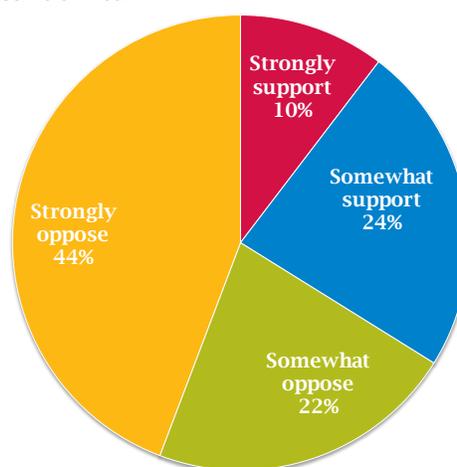
The carbon tax applies to combustion sources of GHG emissions, which account for 70 per cent of BC's total emissions⁷. The CLT recommends imposing the tax on all sources of GHG emissions. A majority of small businesses – two-thirds – do not support the change, with 44 per cent strongly opposed (see Figure 8).

The existing tax captures the majority of emissions in an effective and transparent way. Adding to the base would put BC businesses at an even greater competitive disadvantage vis-à-vis neighboring jurisdictions. The government should conduct an economic impact analysis of this change, as imposing it on additional energy sources will increase input costs, particularly for small businesses that are typically already operating on thin profit margins.

Comment on Recommendation #4, #5, #7, and #23: Methods to use incremental carbon tax revenues

As previously outlined, a carbon tax increase will put upward pressure on operating costs for many small and medium-sized enterprises. However, in

Figure 8:
To what extent do you support or oppose subjecting all greenhouse gas emissions to the carbon tax?



Source: BC Environmental Consultation survey, March 2016, n=482

⁶ Christy Clark on Carbon Taxes and Why She's Not Like Donald Trump, Macleans March 2016

⁷ Climate Leadership Team Recommendations to Government

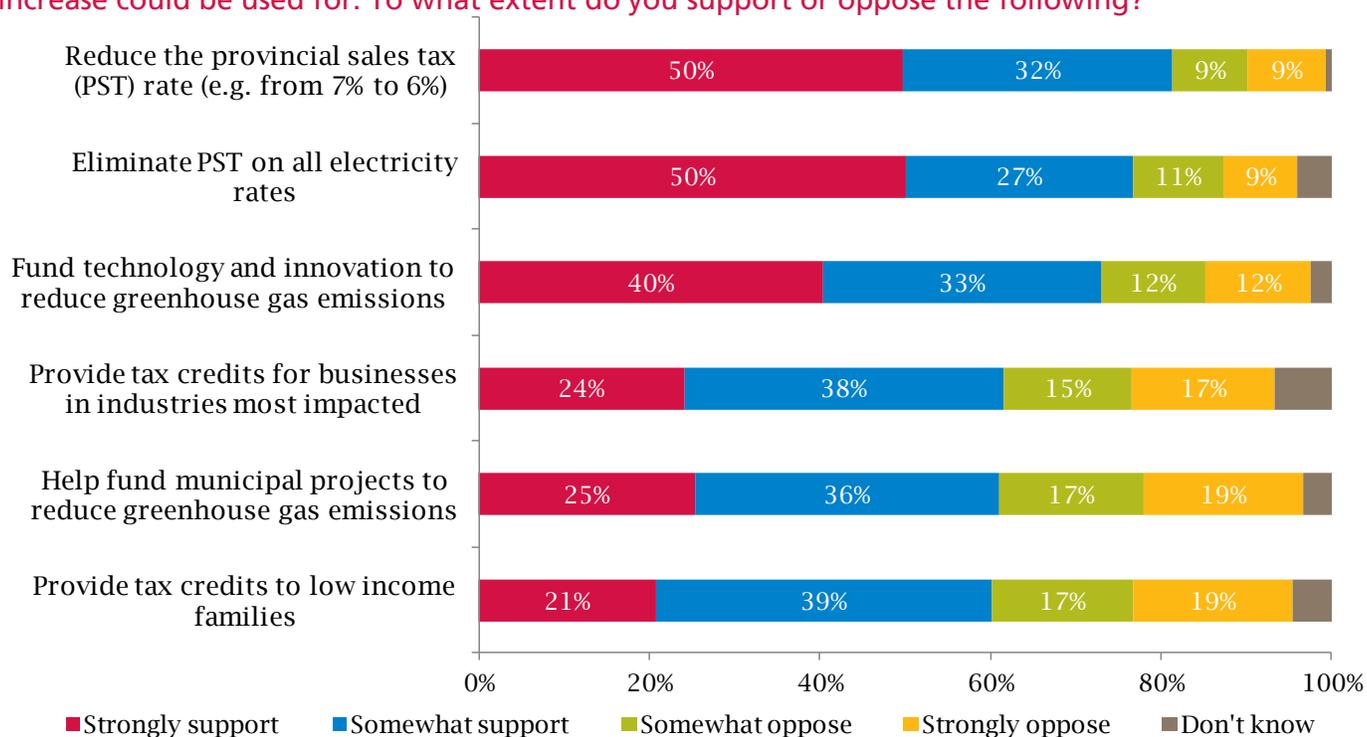
the event of an increase, we asked members for their input on recommendations made by the CLT on how to use incremental carbon tax revenues. A ranking of their support of the CLT recommendations can be seen in Figure 9.

The greatest support is for reducing the PST by a percentage point and eliminating the PST on all electricity rates. These recommendations will directly benefit smaller firms, which employ a large percentage of British Columbians, by mitigating some of the impact an increased carbon tax would have on their business. Support is also shown for funding technology and innovation to reduce GHGs. This will continue BC's climate change policy leadership, narrow-in on a market with high growth potential, and provide solutions on how to reduce emissions through technology.

The other recommendations, such as providing tax credits for businesses in industries most impacted, helping fund municipal projects to reduce GHGs, and providing tax credits to low income families, see lower levels of support. Previous CFIB research has shown inflation-adjusted operating spending by BC municipalities has increased approximately four times faster than population growth⁸. Small businesses are also disproportionately affected by municipal taxation, paying more than their fair share⁹. Based on this, CFIB recommends strict guidelines for municipalities if funding is provided for projects, and the provincial government should not grant municipalities new taxation powers for these initiatives.

Figure 9:

The following is a list of tax reductions or spending measures the revenue from a potential carbon tax increase could be used for. To what extent do you support or oppose the following?



Source: BC Environmental Consultation survey, March 2016, n=482

⁸ BC Municipal Property Tax Gaps 2004-14: A 10-Year Perspective, Richard Truscott and Aaron Aerts. In BC, the average small business pays 2.6 times more property tax than a resident on the same assessed property value.

⁹ BC Municipal Spending Watch 2015, Richard Truscott and Aaron Aerts

Small Business Recommendations and Conclusion

The consultation on the next iteration of BC's Climate Leadership Plan offers a crucial opportunity for independent businesses to have their voice heard on the direction the provincial government will take in addressing climate change. However, as noted in this report, there were challenges with this consultation, such as trying to relay the often vague and complex recommendations to business owners in a way they could understand and respond. For instance, the recommendations necessitate removing revenue neutrality from the tax, yet it is never explicitly outlined. This impeded the ability to communicate the full extent of what some of the recommendations entail, and created some inconsistent responses.

Notwithstanding the problems, CFIB welcomes the consultation, and was appreciated by the large number of independent businesses that participated. Clearly, many hold a strong belief it is possible to grow the economy and protect the environment at the same time. The BC government can continue its leadership on climate policy by working with small and medium-sized businesses. The following are key recommendations on how to achieve that goal:

- BC should not adjust its carbon pricing, nor expand the carbon tax beyond combustion-based emissions, until other jurisdictions catch up and there is a decision regarding the development of a national strategy.
- Revenue neutrality must remain an integral part of the carbon tax.
- For any potential change to taxes or regulation, the economic costs and environmental benefits should be measured and publicly communicated.
- Ensure business groups are consulted and any adjustments to the climate change policy have clear implementation guidelines and are phased-in with enough time for business owners to anticipate and adjust.
- Ensure all environmental regulations are designed with a small business lens and effective public consultation is conducted providing information in a concise, plain language, and credible manner.
- Focus on encouraging business owners to further implement environmentally-friendly technology and practices, such as financial incentives for small and medium-sized enterprises to retrofit their business with lower-emission technologies.
- Encourage the development of technologies which will capture and reduce GHG emissions.
- Create a business hotline where business owners are able to receive real-time answers to their questions.
- Consider using a platform, such as the online Biz Pal system, that makes it easy for a small business owner to know what environmental rules they must comply with and what incentives exist to adopt green technology.

"Generating additional taxes to curb the greenhouse effect is an honourable endeavour. However, generating additional tax revenue under this premise and having the government squander it on other flights of fancy is not acceptable. At that point it turns into another government cash grab with no long term social benefits to be gained."

CFIB Member, British Columbia

"If there is going to be a carbon tax, the monies should be used as grants for business/the public moving from old technologies to more efficient & environmentally acceptable methods. The funds can't go for general revenue initiatives."

CFIB Member, British Columbia

Appendix

BC Environment Survey

As is our usual practice, your individual responses will be strictly confidential (only aggregate results will be released).

To ensure that our scanner accurately records your answers, please mark clearly within the appropriate boxes. ☒

1. Which of the following statements best describes your own point of view about the environment and the economy? (Select one answer only)

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

2. The provincial carbon tax was phased in starting in 2008. The carbon tax has been \$30 per tonne of carbon emissions since 2012, a level which the BC government has committed to hold until 2018. This translates to roughly 7 cents per litre of gasoline, and ranges for other types of fuel. All revenues collected from the tax have been used to reduce other taxes. What impact has the carbon tax had on your business in the past 4 years? (Select as many as apply)

- Invested to reduce emissions from my business
- Had to freeze/cut salaries
- Reduced investment (e.g. new employees, machinery) in my business
- Increased operating/input costs for my business
- Other taxes have decreased
- Reduced demand for my business' products/services
- Made my business less competitive compared to businesses in other jurisdictions
- Other (Please specify) _____
- _____
- No impact
- Don't know

3. The BC government is considering increasing the carbon tax every year by an additional \$10 per tonne of emissions starting July 2018. For example, this would roughly translate to an additional 2 cents per litre of gasoline every year. To what extent do you support or oppose this increase? (Select one answer only)

- Strongly support
- Somewhat support
- Somewhat oppose
- Strongly oppose
- Don't know

4. When the BC carbon tax was phased in, revenue from the tax was used to reduce other taxes (e.g. reduce personal income tax rates, small business corporate income tax rate; introduce tax credits for low income families, training). In other words, the carbon tax has been revenue neutral for the BC government. To what extent do you support or oppose the requirement that additional carbon tax revenues (i.e. in the event of a carbon tax increase) be revenue neutral? (Select one answer only)

- Strongly support
- Somewhat support
- Somewhat oppose
- Strongly oppose
- Don't know

5. The BC government is reviewing recommendations on how to use the additional revenue in the event of a carbon tax increase. The following is a list of tax reductions or spending measures the revenue from a potential carbon tax increase could be used for. To what extent do you support or oppose the following? (Select one for each line)

	Strongly support	Somewhat support	Somewhat oppose	Strongly oppose	Don't know
Reduce the provincial sales tax (PST) rate (e.g. from 7% to 6%)	<input type="checkbox"/>				
Eliminate PST on all electricity rates	<input type="checkbox"/>				
Provide tax credits to low income families	<input type="checkbox"/>				
Provide tax credits for businesses in industries most impacted	<input type="checkbox"/>				
Fund technology and innovation to reduce greenhouse gas emissions	<input type="checkbox"/>				
Help fund municipal projects to reduce greenhouse gas emissions	<input type="checkbox"/>				

Appendix

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6. Currently, the carbon tax is only applicable on combustible fossil fuel emissions (e.g. gas, natural gas, coal). The BC government is considering subjecting all greenhouse gas emissions (e.g. electricity, methane/other emissions from garbage decomposition/combustion, agricultural by-products) to the carbon tax. To what extent do you support or oppose subjecting all greenhouse gas emissions to the carbon tax? (Select one answer only)

- Strongly support
- Somewhat support
- Somewhat oppose
- Strongly oppose
- Don't know

7. The BC government is reviewing other environmental policy recommendations which could have a direct impact on your business. Please indicate to what extent you support or oppose each of the following potential BC government initiatives. (Select one for each line)

	Strongly support	Somewhat support	Somewhat oppose	Strongly oppose	Don't know
Provide financial incentives to retrofit existing residential and commercial buildings to reduce emissions	<input type="checkbox"/>				
Increase regulations to boost energy-efficiency of buildings (e.g. heating equipment, building materials, appliances)	<input type="checkbox"/>				
Require all new residential and commercial buildings to become largely energy self-sufficient within 10 years	<input type="checkbox"/>				
Reduce methane/other emissions from garbage decomposition/combustion	<input type="checkbox"/>				
Provide funding for public transit to reduce emissions	<input type="checkbox"/>				

8. The City of Montreal, Quebec, is planning to ban businesses from handing out single-use plastic bags as of 2018. In BC, the City of Vancouver has announced plans to consult the public on a potential ban. Which of the following policies do you most support in the municipality where your business is located? (Select one answer only)

- Ban businesses from handing out single-use plastic bags
- Require businesses to charge a mandatory fee to consumers for each single-use plastic bag (e.g. 5 cents per bag)
- No change required
- Other (Please specify) _____
- Don't know

Comments: