CM&E CANADIAN MANUFACTURERS & EXPORTERS

M&EC MANUFACTURIERS & EXPORTATEURS DU CANADA

CANADIAN MANUFACTURERS & EXPORTERS SUBMISSION

House of Commons Standing Committee on Finance: Pre-Budget Consultations in Advance of the 2020 Budget

CME-MEC.CA

620 - 55 Standish Court, Mississauga ON L5R 4B2

LIST OF RECOMMENDATIONS

Recommendation 1: The federal government should re-invest all carbon pricing revenues collected from manufacturers directly back into the sector to support emissions-reducing investments and the development of climate solutions.

Recommendation 2: The federal and provincial governments should work together to introduce a shared 20 per cent investment tax credit on the purchase of new machinery, equipment and technologies, including software. The federal component would be achieved by extending the 10 per cent Atlantic Investment Tax Credit across the country. Provinces should be encouraged to match that credit.

Recommendation 3: The federal government should introduce an outcomes-based business tax credit tied directly to companies' success at reducing their greenhouse gas emissions. This tax credit should be made retroactive back to 2015 to reward companies that reduced emissions in the absence of such an incentive.

Recommendation 4: In partnership with the business community, the Government of Canada should develop, generate and disseminate environmental performance benchmarks that accurately compare emissions from Canadian manufacturers with those from other countries.

Recommendation 5: The Government of Canada should establish procurement policies and enabling tools that recognize and take in consideration the inherent carbon benefits of Canadian manufactured goods in domestic infrastructure projects.

Recommendation 6: The federal government should introduce an export tax credit for businesses that export to countries without carbon pricing systems comparable to our own.

Recommendation 7: To expand Canada's ability to develop emissions-reducing technologies, the federal government should:

- Make the Scientific Research and Experimental Development (SR&ED) program significantly easier to access, and have it better support the development of new or improved products and processes;
- Create an electronic business-to-business match-making service to connect Canadian innovators to purchasers; and
- Introduce a patent-box system that would lower corporate taxes on sales of new products developed from patented innovations.

Recommendation 8: The federal government should create a $1-billion fund that specifically targets investment projects to reduce GHG emissions in Canada's highest-emitting industries.

Recommendation 9: The federal government should support the creation and delivery of a nation-wide environmental SMART program that would:

- Be geared to high-emitting companies, regardless of size;
- Offset the cost of technology assessment and diagnostic services; and
- Provide support for investment in reducing GHG emissions and improving energy efficiency.

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BACKGROUND

Canadian Manufacturers & Exporters (CME) is pleased to participate in the Standing Committee of Finance's 2020/2021 pre-budget consultations. Given the Committee's focus on climate change and the transition to a low-carbon economy, it is important to state up front that CME believes that all Canadians, including the industrial sector, have a responsibility to do what they can to address this issue.

We fully agree with the government's view that a balance must be struck between the environment and the economy. We also agree that a global challenge requires global solutions. Canada is a small, open economy, that contributes a minimal amount of human-based GHG emissions. Canada accounts for about 1.6 per cent of global GHG emissions (745 Mt of CO2 equivalent). If our emissions were to disappear tomorrow, those 745 Mt of GHGs would be replaced by new emissions growth from China alone in less than three years.

It is true that Canada is a relatively large emitter on a per capita basis. However, this is not because of indifference towards the environment or a lack of willingness to do our fair share. Most of the gap between Canada and other advanced economies can be pinned on two specific factors: the relatively large importance of the oil and gas sector to the Canadian economy; and the fact that we live in a cold, sparsely-populated country where heating and vehicle travel needs are typically much higher than they are elsewhere. The former is a major source of our economic wealth and prosperity; the latter is an unavoidable reality of life in Canada.

Furthermore, Canadian manufacturers are often global leaders in environmental performance, especially in producing goods at low levels of emissions intensity. For example, Canada's steel industry has a carbon footprint 2-4 times lower than its international competitors – largely because much of the energy in Canadian steel production comes from non-emitting sources and companies have invested in the latest production technologies.

With those facts in mind, CME believes that future action on reducing GHG emissions needs to reflect the following core statements:

- An uncompetitive business environment will drive investment out of Canada, hurting the economy, damaging our ability to generate innovative climate solutions, and resulting in higher global GHG emissions because of carbon leakage;
- Because of our relatively clean emissions profile, policies that result in more manufacturing activity in Canada and displace imports from high-polluting countries will contribute to a net reduction in global GHG emissions; and
- All carbon pricing revenues collected from manufacturers need to be recycled back into the sector to help spark investments in reducing its environmental footprint and in generating technology solutions to the climate challenge.

Most importantly, Canada cannot make a meaningful contribution to fighting climate change without the support of a thriving economy, including the energy sector itself. The wealth generated from strong economic growth is an essential resource to spark the investment and innovation needed to address this challenge.

RECOMMENDATIONS

Reinvesting carbon tax revenues back into manufacturing

The federal government currently transfers 90 per cent of carbon pricing revenues to households on the grounds that businesses will simply pass their costs onto consumers. In the face of stiff import competition, most manufacturers do not have this luxury. They absorb the costs, which erodes their profitability and thus their capacity to invest in developing new environmental technologies, or to make strategic investments to reduce their carbon footprint.

If Canada is facing a climate emergency, then all carbon pricing revenues collected from manufacturers need to be re-invested back into the sector to generate solutions. This will not be sufficient to address the issue, but it is a necessary first step. Solutions to the climate challenge will not come from consumer rebates.

Recommendation 1: The federal government should re-invest all carbon pricing revenues collected from manufacturers directly back into the sector to support emissions-reducing investments and the development of climate solutions.

Improving investment incentives

CME believes that incentives are more effective than penalties. We also know that Canadian businesses are in the best position to invest in new emissions-reducing technologies, innovations and retrofits when they are prosperous and growing, and when there is a sufficient return on investment.

There is a clear link between capital investment and reductions in GHG emissions intensity. While recent changes to the accelerated capital cost allowance were positive, more federal investment support is needed if Canada is to make meaningful progress on reducing its environmental footprint.

Several provinces have investment tax credit programs in place to incentivize capital spending. The federal government also provides such a credit in Atlantic Canada. These need to be expanded and harmonized to maintain our competitiveness, prevent carbon leakage, increase the number of high-quality jobs in Canada, and reduce our overall emissions profile.

Recommendation 2: The federal and provincial governments should work together to introduce a shared 20 per cent investment tax credit on the purchase of new machinery, equipment and technologies, including software. The federal component would be achieved by extending the 10 per cent Atlantic Investment Tax Credit across the country. Provinces should be encouraged to match that credit.

Incentives for achieved results also matter. A tax credit on demonstrated success at reducing GHG emissions would help companies lower their net carbon tax payable faster, and spark additional investment.

Recommendation 3: The federal government should introduce an outcomes-based business tax credit tied directly to companies' success at reducing their greenhouse gas emissions. This tax credit should be made retroactive back to 2015 to reward companies that reduced emissions in the absence of such an incentive.

Preventing carbon leakage from Canada

Uncompetitive economic policies create the risk that Canada will lower its domestic GHG emissions by exporting economic activity to countries where environmental standards are laxer. Poorly designed carbon pricing systems and other uncompetitive policies will drive manufacturing production out of the country. We will lose well-paying jobs and, through carbon leakage, global GHG emissions will increase. Accurate global benchmarks are needed to demonstrate the global benefit of manufacturing more in Canada.

Recommendation 4: In partnership with the business community, the Government of Canada should develop, generate, and disseminate environmental performance benchmarks that accurately compare emissions from Canadian manufacturers with those from other countries.

Canadian businesses in emissions-intensive industries have a generally lower emissions profile than many of their international competitors. For this reason, government policies that encourage the use of domestic inputs could have a net positive effect on reducing emissions at the global level.

Recommendation 5: The Government of Canada should establish procurement policies and enabling tools that recognize and take in consideration the inherent carbon benefits of Canadian manufactured goods in domestic infrastructure projects.

Initiatives like the Clean Fuels Standard and the Output-Based Pricing System are part of the federal government's toolkit to lower GHG emissions. CME has already provided feedback and recommendations on these policies. Those will not be revisited in this submission.

However, one of the results of these initiatives is that they raise the cost of doing business in Canada and erode our global competitiveness. Imports from high-polluting countries without comparable carbon pricing systems risk displacing our cleaner goods, while our manufactured goods exports will be at a disadvantage in those markets. This result is counterproductive to the overarching goal of global GHG emissions reduction.

Recommendation 6: The federal government should introduce an export tax credit for businesses that export to countries without carbon pricing systems comparable to our own.

Supports for developing environmental solutions

Canada's most valuable contribution to the climate challenge is to be a leader in developing innovative solutions. That means increasing government supports for the development of emissions-reducing technologies, products and processes; as well as making it easier for businesses to identify and adopt those technologies. At present, Canada's R&D supports emphasize basic and applied research, as well as experimental development. They have also grown increasingly difficult to access. By contrast, US tax credits are more easily available and specifically include support for the development of new or improved products and processes – the kind that lead to significant GHG emissions reductions.

Recommendation 7: To expand Canada's ability to develop emissions-reducing technologies, the federal government should:

- Make the Scientific Research and Experimental Development (SR&ED) program significantly easier to access, and have it better support the development of new or improved products and processes;
- Create an electronic business-to-business match-making service to connect Canadian innovators to purchasers; and
- Introduce a patent-box system that would lower corporate taxes on sales of new products developed from patented innovations.

Reducing GHG emissions in Canada

Canadian manufacturers may be low emitters compared to their foreign counterparts, but the fact remains that a small number of companies in specific industries account for the majority of Canada's industrial emissions. For this reason, targeted actions are needed that are aimed squarely at large emitters.

Recommendation 8: The federal government should create a $1-billion fund that specifically targets investment projects to reduce GHG emissions in Canada's highest-emitting industries.

There is also a need to improve the supports available for smaller-scale adoption of environmental technologies. As above, these supports should focus on low-hanging fruit – companies that are high emitters in proportion to their industry counterparts. A program modelled after the former SMART program delivered through FedDev Ontario could help high-emitting businesses identify, adopt and implement new technologies that reduce their environmental footprint.

Recommendation 9: The federal government should support the creation and delivery of a nation-wide environmental SMART program that would:

- Be geared to high-emitting companies, regardless of size;
- Offset the cost of technology assessment and diagnostic services; and
- Provide support for investment in reducing GHG emissions and improving energy efficiency.