



Manitoba's Response to the Proposed Federal Benchmark and Backstop for Carbon Pricing

June 29, 2017

The federal government invited jurisdictions to provide formal comments to its Backstop and Benchmarks legislative proposals by June 30th. This document constitutes Manitoba's formal response.

Climate change is real with significant negative impacts and consequences, and all governments must play a role in addressing it. This involves reducing carbon emissions, adapting to actual climate changes, and accelerating the transition to a low-carbon, clean growth economy. Climate change represents a considerable challenge and Manitoba is prepared to work with the federal government and other provinces and territories to develop effective solutions.

One of the great strengths of Canadian federalism is its ability to draw regions together towards common goals while at the same time acknowledging and respecting regional differences. This has made Canada the great country it is today. With this understanding clearly in mind, Manitoba provides this response to the federal government's proposed carbon pricing benchmark and backstop for carbon pricing.

Manitoba's Commitment to Taking Action on Climate Change

On March 3, 2016, Canada's First Ministers signed the *Vancouver Declaration on Clean Growth and Climate Change*. The document sets out the principles for a common approach to responding to climate change and building a low-carbon, clean growth economy. It recognizes the Paris Accord, sets a national target to reduce greenhouse gas emissions by 30% below 2005 levels by 2030, and clearly acknowledges that climate

change is a potentially serious threat for Canada and the world. Manitoba signed this declaration, and remains supportive of its spirit and intent.

The cooperative spirit outlined in the Vancouver Declaration should be upheld. If the federal government is serious about addressing one of the greatest challenges Canada may face in the 21st century, it cannot do so without full consideration of provincial rights under the constitution and our shared principles of how Confederation works.

Provinces and territories face unique challenges in addressing climate change, and each has invested considerable time and effort in refining approaches that reflect their respective circumstances. Without adequate flexibility and recognition of this fact, the federal 'benchmark' for carbon pricing will impede the efforts of jurisdictions to innovate and develop strategies that are efficient, effective and tailored. Imposing a federal 'backstop' carbon price without prior consideration for a more tailored approach is not the least-cost pathway to achieving emissions reductions in Manitoba.

Manitoba takes climate change seriously, and we have firmly committed to introducing a 'Made-in-Manitoba' climate change plan with carbon pricing that both addresses our unique environmental circumstances and meets our province's economic realities.

We have committed to this approach because we understand that climate change is real and will have real impacts on our environment, economy and people. Our northern communities are already feeling the impact of climate change. The Town of Churchill for example recently lost its rail access after it suffered considerable damage from late-season storms and flooding.

This rail line is continually threatened by melting permafrost – and Manitoba's Indigenous peoples are increasingly at risk of being impacted by climate change, particularly in northern regions where more rapid warming has already begun to impact lake ice and permafrost, winter roads and infrastructure, ecosystems and wildlife habitat, and traditional ways of life.

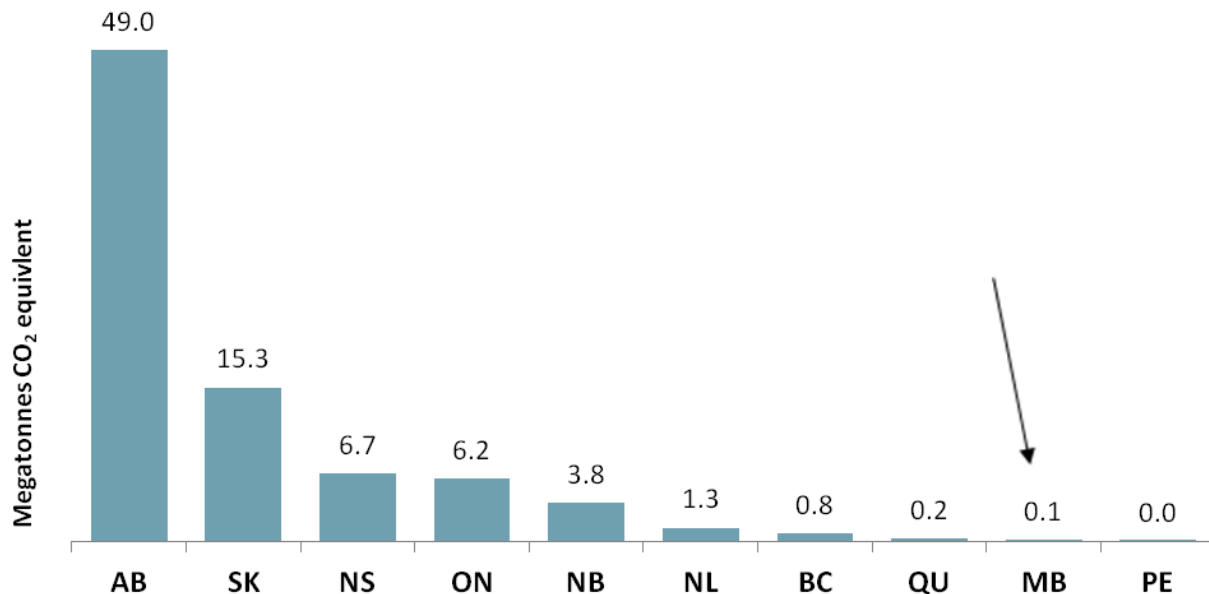
As well, agricultural producers, economic sectors, businesses, communities and families may all find it more difficult to adjust to impacts that a changing climate may bring. Flooding, droughts and more severe weather may become the norm. In the face of this reality Manitoba has and will continue to take action in a way that is effective, responsible and mindful of our provincial environment, economy and peoples.

Manitoba's Investment in Clean Renewable Energy

Every province and territory has a unique geography, population and resource base. Take energy, for example: Ontario generates much of its electricity through nuclear power, while Quebec has developed its hydroelectric resources. Nunavut relies almost exclusively on fossil fuels, while Saskatchewan derives much of its electricity from fossil fuels but has also pursued the development of carbon capture and storage technology. It is clear that different regions require different approaches.

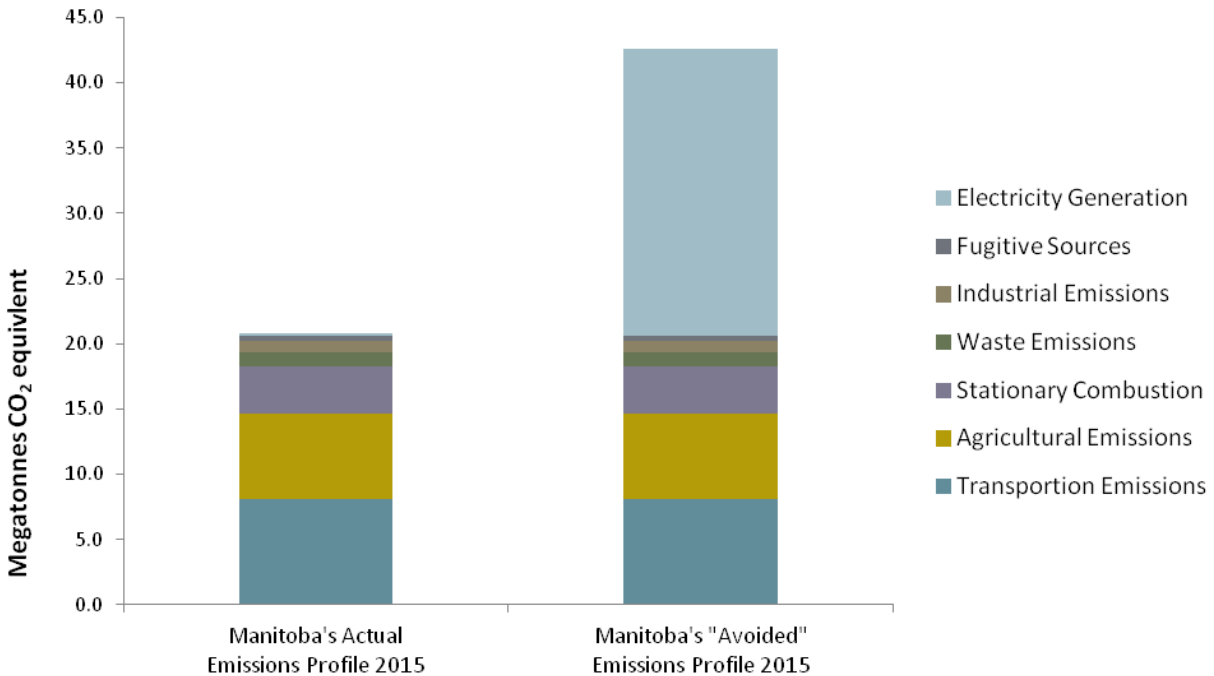
In Manitoba, 98% of our electricity is generated from clean, renewable hydro. This is no accident. Manitoba has consistently made strategic investments in developing its renewable energy resources. As a result, we have already made significant investments in green energy, thereby minimizing our provincial carbon footprint.

GHG Emissions from Electricity Generation (Provincial Comparisons 2015)



If Manitoba had chosen instead the less costly option to burn fossil fuels for electricity generation, our overall carbon emissions would be double current levels from 21 megatonnes per year to about 42 megatonnes as the figure below shows.

Manitoba's Actual versus "Avoided" Emissions Profiles



This is an important consideration that needs to be recognized; because it has already come at a significant cost to Manitoba taxpayers and ratepayers. Manitoba has invested billions of dollars into developing one of the cleanest electrical generating systems in the world. We produce the lowest amount of emissions from electricity than any other province but P.E.I. On a per capita basis, Manitoba's investment in renewable energy remains amongst the highest in the country and is even higher than what Quebec invests, Canada's only other province with a virtually identical clean electricity grid. The Keeyask generating station and Biopole III transmission line, now under construction, will cost the province \$6.5 billion and \$4.6 billion respectively once completed, or \$10,500 for every Manitoban.

Manitoba Hydro's debt has risen dramatically as a consequence. Here is what the Board Chair of the utility, Sandy Riley, stated on May 5th:

"These decisions have placed Manitoba Hydro's debt trajectory on what one ratings agency has already described as an "unsustainable" path. With the completion of these capital projects, Manitoba Hydro's debt will have grown from \$11 billion to at least \$23 billion, an increase of more than 100 per cent. This is a legacy debt that all Manitobans will be responsible for paying."

The federal 'backstop' takes no account of this interplay between higher electricity rates due to clean energy investment and higher fossil fuel rates brought about by carbon pricing. Manitoba must and will take this into account with its 'made-in-Manitoba' plan.

On the clean energy and green economy front, Manitoba is therefore already doing the heavy lifting. It is making a pan-Canadian and international contribution to reducing emissions. Manitoba's significant and ongoing investments in clean, renewable energy generation should be recognized by the federal government as an important asset that will contribute to Canada's efforts to build a clean growth economy and successfully meet its international climate change commitments. The federal 'backstop' and 'benchmark' approach to imposing its climate policies on provinces does not allow for this.

Made-in-Manitoba Plan to Achieve Real Emissions Reductions

It is our government's firm belief and position that a 'made-in-Manitoba' approach to climate action and carbon emissions reduction is best for our province.

It is acknowledged that putting a price of carbon pollution can be an effective, market-based way to reduce fossil-fuel emissions. As a policy instrument, it is relatively simple – increasing the price of fuel encourages consumers to reduce their usage and/or seek alternatives.

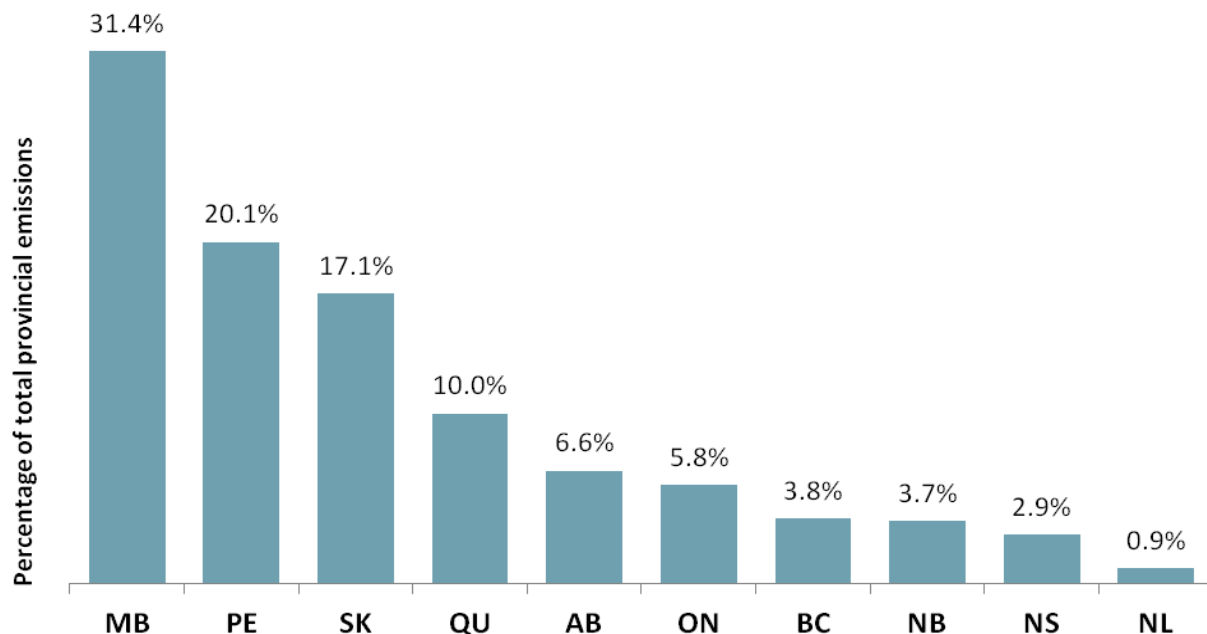
But for certain businesses and families, particularly those working in regions or sectors that are exposed to international competition or where suitable energy alternatives are not readily available, a carbon price may just raise costs, jeopardizing business competitiveness here and outside the province. The Manitoba government understands this and is designing its policies to ensure that businesses remain competitive and workers remain employed.

The proposed \$50 per tonne carbon price of the federal government is too extreme for Manitoba's circumstances. Every \$10 per tonne in carbon price would yield approximately \$100 million in revenue each year. At \$50 per tonne, that is about \$500 million. The average household impact of the federal \$50 per tonne carbon levy would be \$335 dollars in that year. Over the five-year period of the federal carbon pricing 'backstop' that would amount to over \$1000 paid by the average Manitoba household.

We will introduce a carbon price in 2018, but it will be a carbon price that is fair and fully aligned with the clean, renewable electricity we already produce and that reflects the economic realities of our provincial economy.

Carbon pricing is not the only way to reduce greenhouse gas emissions, and it's not necessarily the most cost-effective way for doing so from all emissions sources. Although agriculture is a large emitting sector in Manitoba, for example, emissions from this sector are not solely associated with the burning of fossil fuels. A significant proportion of emissions from agriculture are process related; meaning that they result from digestion of plant materials by livestock, the release of greenhouse gases from soil, and the management of manure. The figure below shows that Manitoba has the highest amount of agricultural emissions in Canada requiring special consideration.

GHG Emissions from Agriculture (Provincial Comparison 2015)



This reality leads to an important conclusion. While pricing carbon may address a higher proportion of fuel or energy emissions in some jurisdictions, doing so will be less effective on its own at reducing greenhouse gas emissions in Manitoba. The proposed federal backstop carbon pricing scheme needs to take this reality into account. In addition, federal climate change programming can complement and support our efforts by stepping up to showing through investment that they are of national interest. Proactive and positive approaches to shared funding will benefit Manitobans more than conditional exclusion as demonstrated by the recent federal announcement of the Low Carbon Economy Fund.

That's why Manitoba is developing a tailored approach to greenhouse gas reductions that will:

- Continue investments in green electricity;
- Enhance our energy efficiency programming;
- Introduce a 'made-in-Manitoba' price on carbon fuels;
- Establish initiatives to target emission reductions from a wider range of sources;
- Adopt revenue recycling principles and practices that are fair, effective and fully transparent to Manitobans to reduce cost impacts on them;
- Develop programs to help remove and sequester carbon in land, water and forests because this helps reduce climate change too. [repeated as a separate section below]

The Federal Backstop and Cooperative Federalism

Given our constitutional structure, any federal scheme to combat climate change must give effect to the principle of cooperative federalism. Put another way, the federal government should seek to achieve certain outcomes for greenhouse gas emission reduction in order to meet Canada's international commitments but at the same time it must respect provincial jurisdiction over natural resources, the regulation of local business and industry and property and civil rights. Manitoba suggests the current backstop is overly prescriptive and is not consonant with the dictates of cooperative federalism.

The federal government has stated that its proposed benchmark "provides provinces and territories with flexibility to implement their own carbon pollution pricing systems". However, as currently drafted the federal scheme appears to be designed primarily based on the carbon emission reduction strategies developed by larger jurisdictions,

which account for a significant portion of greenhouse gas emissions and population. These strategies were already in place at the time of the design of the federal approach and were legitimately incorporated. Manitoba is being placed at a disadvantage at having to conform to a federal plan which does not seek to incorporate our provincial approach.

Manitoba urges the federal government to adopt a regime that is more flexible and not limited only to the two elements of the current proposed backstop. Rather, it should accommodate any provincial plan that substantially furthers the federal government's overall national objectives for greenhouse gas reductions. In this regard, Manitoba proposes to implement a comprehensive solution tailored to the unique emissions profile of our province. Our plan will reflect the reality that significant provincial investments have already been made in clean and renewable hydroelectric energy. Manitoba's plan will reduce emissions contributing positively to Canada's objective of meeting its international obligations on climate change and the reduction of greenhouse gases.

Manitoba recognizes that both levels of government have the authority to legislate on environmental issues, as long as it acts within its constitutional powers. However, this should be done on the basis of cooperative federalism.

Based on the federal proposals now public, and in advance of any legislation it plans to bring forward, Manitoba will seek a formal legal opinion on the constitutionality of the federal government imposing the 'backstop' and 'benchmark' with its prescriptive nature and elements on Manitoba. In particular, Manitoba will request a legal opinion to assess whether the federal government has the constitutional authority to impose a specific carbon pricing backstop that supersedes all or part of a provincial plan and whether the federal government can limit the exercise of provincial jurisdiction to only two options, without accommodating other provincial measures to reduce greenhouse gas emissions.

Federal Benchmark and Backstop

Given our substantial progress to date and the climate actions being considered, Manitoba is confident that it is making a positive contribution to helping Canada meet its international commitments and successfully transitioning to a "low-carbon, clean growth economy".

The following specific comments on the federal proposal can be made:

- On principle, Manitoba would not object to other jurisdictions voluntarily adopting the benchmark carbon price or allowing the proposed version of the federal backstop legislation to apply within their jurisdiction. However, we seek federal legislation that is more flexible and would recognize the “made-in-Manitoba” approach as compliant with federal objectives. As noted elsewhere, Canada is diverse and certain solutions may work better in some regions than others. But after careful review, it is clear that the one-size-fits-all federal approach detailed in the Proposal document would not be effective in Manitoba. A more flexible approach is required.
- The proposed federal carbon pricing approach indicates that provinces and territories will have the “flexibility to implement their own carbon pollution pricing systems”, however this flexibility is actually curtailed as provinces are limited to just two specific carbon pricing choices via the Benchmark. It may be that a straight carbon tax works in certain jurisdictions, while a cap-and-trade system works best in others. However Manitoba believes that its tailored carbon price, with investments in clean electricity and energy efficiency, and targeted initiatives will achieve more emissions reductions at a lower cost to Manitoban’s than the federal approach.
- With respect to the carbon levy component of the federal backstop, the complexity of implementation of this approach is such that it calls into question the goal of reducing emissions “at lowest cost to business and consumers”. There is little attraction to Manitoba of the federal government establishing a registry of provincial companies under a federal scheme that is both difficult to understand and costly to administer. The mechanics of carbon pricing should reside within provinces and territories which can then share data and information with federal and provincial counterparts.
- The application of a federal carbon levy to inter-jurisdictional commercial carriers (e.g. trucking companies, railways, airlines, etc.) is new and particularly onerous, requiring such carriers to comply with new layers of red tape. This includes having to calculate where they purchased their fuel, how much of it was used within the “backstop jurisdiction”, how and when to submit their new tax, and so forth. For a province with a substantial transport sector, such a prospect is not acceptable. Reducing red tape on businesses is a key goal of our

government. This goes against that approach and is also contrary to the spirit of the new Canadian Free Trade Agreement which seeks to reduce business barriers across the country.

- With respect to recycling revenues raised from a proposed federal carbon levy, the federal government has not indicated with any clarity how this will be done. Revenues raised in a province should stay in that province, and the decision as to how the revenues are to be used should remain with provincial governments who are best positioned to address climate change impacts and costs.
- The proposal federal “backstop” paper does not include any reference to Indigenous peoples and the energy circumstances of northern and remote communities. With few alternatives, remote communities are particularly vulnerable to higher costs associated with rising fuel prices. The ‘backstop’ pricing schedule would impose new costs on these communities. Manitoba is committed to working directly with First Nations in this province on solutions that recognize our important relationship.
- As to the “output based pricing system” component of the federal backstop, Manitoba is fully supportive of any policy that “minimizes competitiveness and carbon leakage” and can see merit in output-based pricing models. However, it is not clear if this proposed approach is fully suited to the Manitoba context, particularly given the relatively few industrial facilities in this province that would meet applicability criteria. It would be more effective in a tailored ‘made-in-Manitoba’ climate and carbon pricing plan.

Conclusion

The scale of the climate change challenge and the unique nature of each jurisdiction in the federation suggest that there can be no single path forward. Climate change will impact regions and economies differently. And policies and programs that work in some regions might not be suitable in other regions.

Manitoba is on the path to implement a ‘Made-in-Manitoba’ climate and green plan that will reduce emissions, address climate change impacts, protect our water and nature, and grow our economy with jobs.

Manitoba is already clean and green in many ways. Our major investments in renewable hydro electricity generation should be recognized and supported. Ratepayers are

taxpayers. We stand ready to do our part but we have already been doing our share. Manitobans stand ready to do even more.

Manitoba is a leader in energy efficiency. With the creation of Efficiency Manitoba, our leadership in this area will continue. Our energy reduction targets are legislated, real, and will lead to sustained emissions reductions for years to come and costs savings to consumers on their power bills.

Manitoba is committed to introducing a price on carbon that is fair, effective, affordable and tailored to our provincial circumstances. We should be free to do so. We can reduce greenhouse gas emissions while protecting key economic sectors, while minimizing household and and consumer impacts.

Manitoba will develop and implement a broad range of emission-reducing initiatives and programs that will target specific sources and demonstrate actual reductions. Finally, Manitoba will seek effective and practical ways to draw carbon out of the atmosphere and sequester it safely in the land, water and forests. These actions should be supported by the federal government to help Canada achieve its climate change goals and put Manitoba further on its path to becoming Canada cleanest, greenest province.