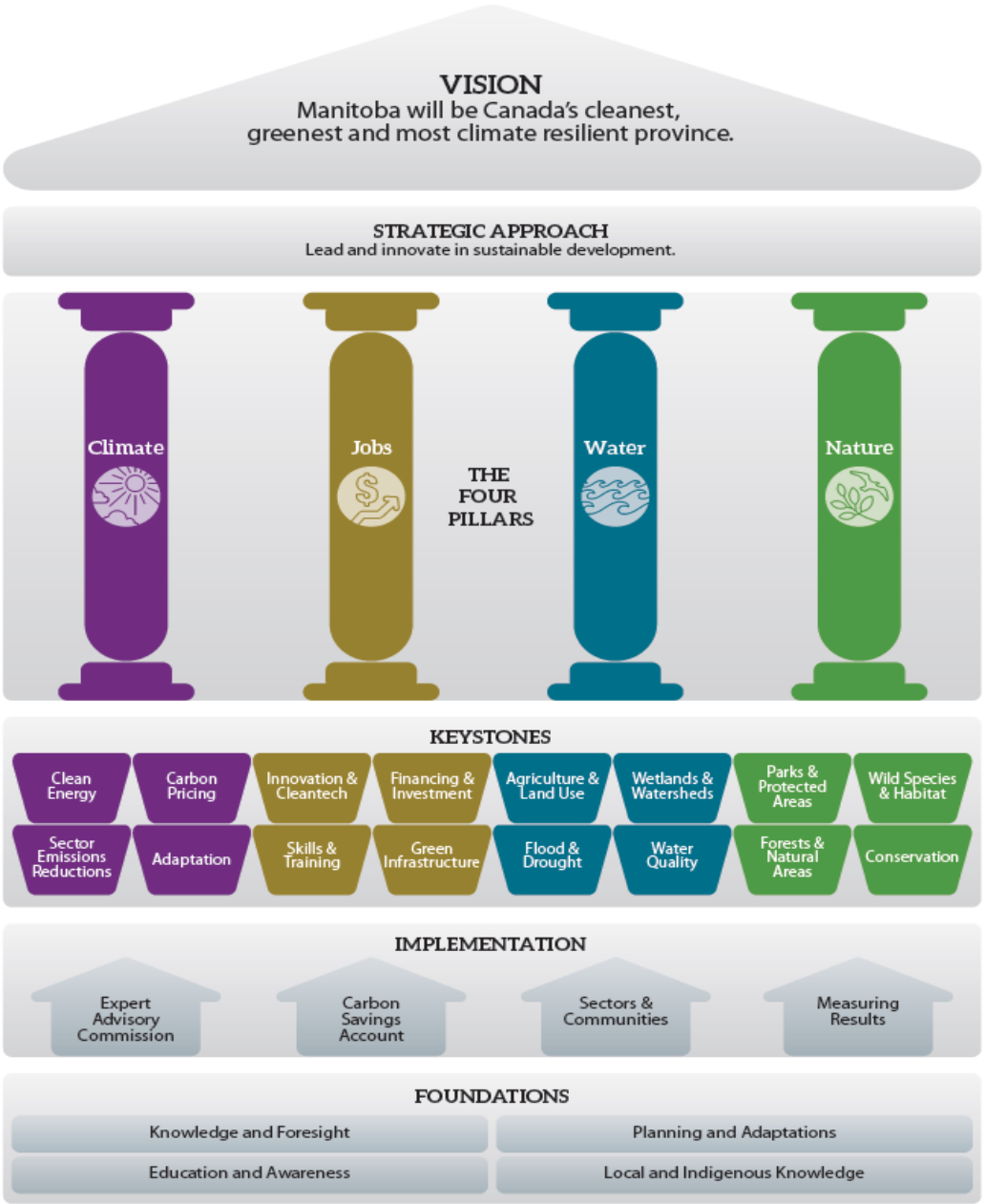
A Made-in-Manitoba Green Levy

Moving Manitoba Forward with the Climate and Green Plan

Made-in-Manitoba Carbon Pricing

Background

On October 27, 2017, the **Made-in-Manitoba Climate and Green Plan** was released, setting a bold vision for Manitoba to become Canada's cleanest, greenest, and most climate-resilient province. On November 9, 2018, the *Manitoba Climate and Green Plan Implementation Act* was passed setting out the legislative and regulatory mechanisms to turn our plan into action.



Manitoba has consistently pursued a carbon pricing approach that fits our province's unique circumstances. The federal government's high and rising carbon tax threatens jobs and economic growth in Manitoba.

As a result of Manitoba's unique emissions profile, the opportunity to cost-effectively reduce carbon emissions is lower than in other provinces. The federal approach is punitive to Manitoba and increases costs with fewer emissions reductions. The federal 'one-size-fits-all backstop' does not recognize or respect Manitoba's reality and green record, including:

- The cleanest electricity grid in Canada reflecting Manitoba's expensive investment in clean, green energy already
- The highest proportion of agriculture emissions, which are not subject to carbon pricing
- One of the smallest heavy industrial sectors in Canada which cannot cost-effectively reduce emissions on a significant basis.

Together, this means that the brunt of carbon pricing falls disproportionately on Manitoban consumers and families.

The federal government denied our approach imposing instead its rising, high carbon tax backstop on the province. Manitoba has consistently rejected this 'one-size-fits-all' federal policy for carbon pricing and climate action from the beginning. We are now moving forward with a made-in-Manitoba Green Levy that is better for the environment, better for the economy, and better for our children and grandchildren.

This document provides details on how the Green Levy will work in Manitoba.

Made-in-Manitoba Green Levy Benefits Manitobans

Manitoba will be legislating a flat $25/tonne carbon levy effective July 1st, 2020. Manitobans will now save $1 billion in carbon taxes alone over the next five years compared to the federal backstop carbon tax, as the chart below shows.

$1 Billion Carbon Tax Savings Under Manitoba Plan

Revenue Estimates ($M)*	2020	2021	2022	2023	2024	5-year Total
Federal Backstop	$351	$456	$555	$540	$525	$2,427
Manitoba Plan ($25)	$293	$285	$279	$273	$266	$1,396
Difference	-$58	-$171	-$276	-$267	-$259	**-$1,031**

** Revenue estimates are based on gTech modelling results.*
** Revenue estimates are expressed in 2019 dollars.*

The average Manitoba household will save about $200 per year under our flat Made-in-Manitoba Green Levy compared to the $50 per tonne federal carbon tax. Over the next five years, they will save over $700, as the chart below shows.

Household Savings with MIM Green Levy

Average Household Direct Impacts ($)*	2020*	2021	2022	2023	2024	5-year Total
Federal carbon tax rate	*$30*	*$40*	*$50*	*$50*	*$50*	
Federal carbon tax impact	$(126)	$(329)	$(400)	$(391)	$(371)	$(1,617)
Manitoba carbon levy impact (flat $25 carbon levy)	$(105)	$(206)	$(202)	$(193)	$(188)	$(894)
Difference	**$(21)**	**$(123)**	**$(198)**	**$(198)**	**$(183)**	**$(723)**

A Lower PST

All of the revenue raised by this carbon levy will be returned to Manitobans in the form of lower taxes. The PST will be reduced from 7% to 6% effective July 1st, 2020. This will give Manitobans the second-lowest PST in Canada.

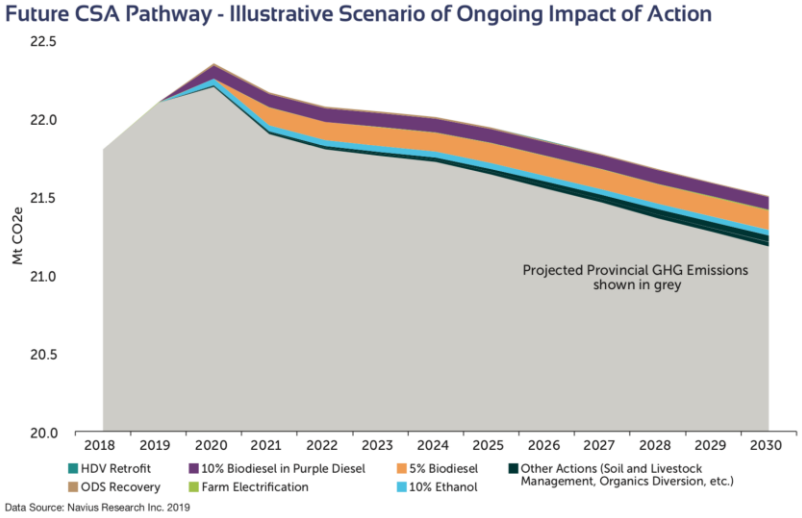
Manitoban families will gain more from the PST reduction than they will pay in the made-in-Manitoba green levy - each and every year. The average Manitoba household will save over $350 each year with a 6 per cent PST.

More GHG Reductions

With carbon pricing, Manitoba will now double its greenhouse gas (GHG) emissions reductions to at least 2 megatonnes (MT) during its first Carbon Savings Account period from 2018-2022.

The figure below shows emissions reductions already projected and getting underway from actions proposed under the Carbon Savings Account recommended by the independent Expert Advisory Council.

Ongoing Emissions Reductions from 1st CSA

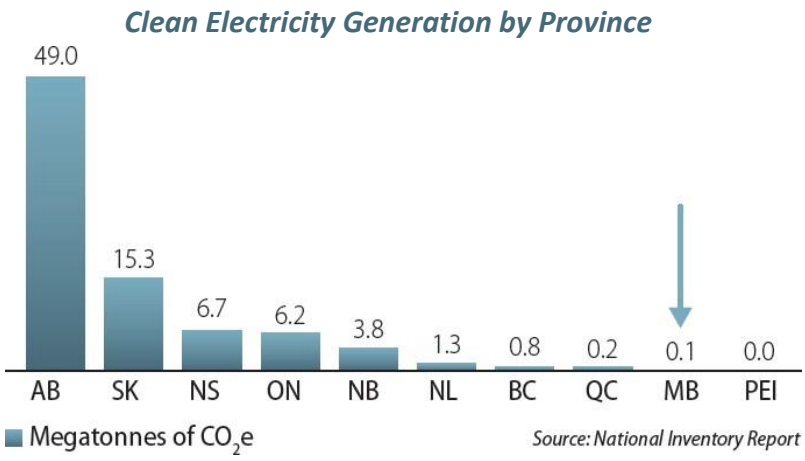


A Flat Carbon Price Works Better for Manitoba

A higher carbon price in Manitoba would not be cost-effective in reducing emissions given our province's emissions profile. The results of extensive carbon pricing modelling and analysis show that the opportunities to cost-effectively reduce carbon emissions in the province fall off after $25 per tonne. Anything beyond this price is punitive because it results in rising costs to households and businesses with much less cost-effective carbon reductions.

This finding is largely due to three unique Manitoba features that impact the efficacy of higher carbon prices in our province compared to other jurisdictions: (1) our clean electricity grid (2) our large agriculture sector, and (3) our small heavy industrial sector.

First, as the figure below demonstrates, Manitoba has the cleanest electricity-producing grid in Canada with over 99 percent of our electricity generated from non-emitting renewable resources. There are almost zero opportunities to achieve emissions reductions in this sector, unlike other provinces.



Moreover, we are already paying a form of carbon reduction tax. Manitobans have invested billions in low-carbon electricity through Manitoba Hydro that is not recognized by the federal government. In fact, Manitobans have invested almost three times more in clean electricity compared to Quebec and British Columbia, the other big hydro-producing provinces, as the chart below indicates.

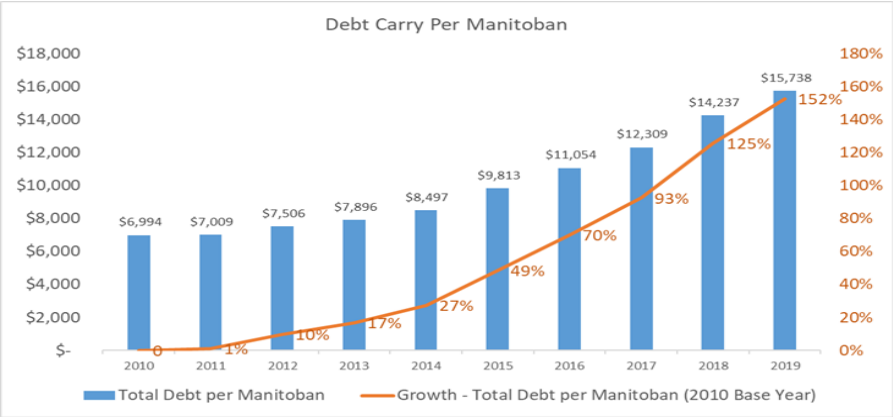
Manitoba's Investment in Clean Electricity

- **MB investments over the last ten years are <u>2.7 times greater</u> per capita than that of other hydro producing provinces.**

Province	Total Capital Spending 2008/09 to 2018/19 ($M)	Average Per-capita Spending 2008/09 to 2018/19
British Columbia	$24,323	$475
Quebec	$42,214	$473
Manitoba	$18,632	**$1,316**

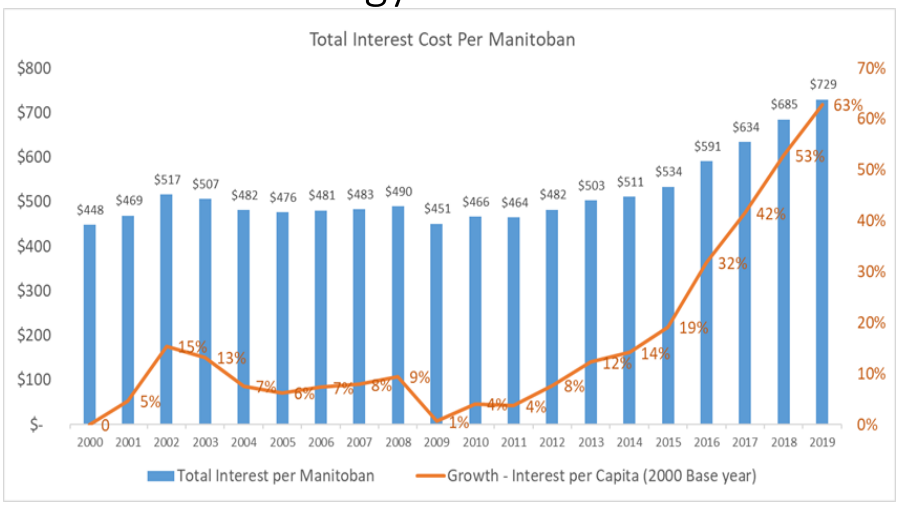
Each and every Manitoban 'owes' almost $16,000 of Hydro-specific debt as can be seen in the figure below.

MB Hydro Debt – Clean Energy Investments



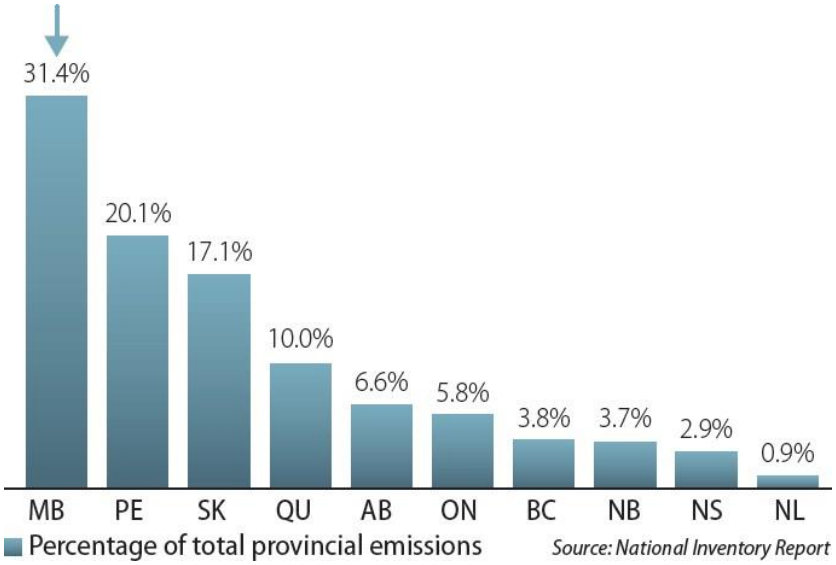
The interest costs on Manitoba Hydro's rising debt are growing too. Those costs have increased 63% since 2000. Today, each Manitoban's share of Hydro interest costs is $729, as the figure below shows. The rising federal carbon tax adds to this financial burden on Manitobans.

Clean Energy Investment Debt



Second, Manitoba has the highest proportion of agriculture emissions relative to all other Canadian provinces. This reality requires special recognition because the majority of agriculture emissions are not due to the burning of fossil fuels but rather to biological processes such as the release of greenhouse gases (GHGs) from soils and animal digestion, which cannot be reduced via carbon pricing.

Provincial Agriculture Emissions as a Percent of Total Provincial GHGs



Third, Manitoba has a very small heavy industrial base with fewer carbon emissions from this sector that can be reduced by the federal backstop carbon tax. A rising carbon tax simply penalizes this sector without giving us much more in the way of incremental emissions reductions. As can be seen by the figure below, Manitoba has only six large industrial emitters.

Manitoba Has Only 6 Large Industrial Emitters – each from a different sector

Company/Facility	Sector	Total 2017 Emissions (tonnes CO2e)
Koch Fertilizer Canada, ULC	Nitrogen Fertilizer	662,339
TransCanada PipeLines Ltd.	Natural Gas Pipelines	182,061
Graymont Western Canada Inc.	Lime	127,822
Canadian Kraft Paper Industries Ltd.	Pulp and Paper	80,703
Husky Oil Operations Limited	Chemicals (ethanol)	77,198
Vale Canada Limited	Mining	62,718

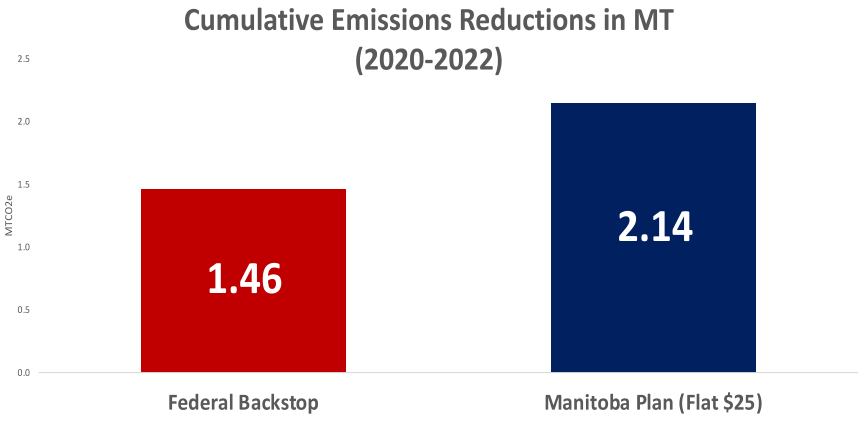
Data Source: 2017 GHG Reporting Program[6]

Manitoba's Green Levy on its own will reduce emissions by a comparable amount as the federal government's plan. This is important as the goal of any climate plan must be to reduce GHG emissions in a cost-effective manner. Manitoba's plan does that.

Overall, Manitoba's carbon savings account will now double to 2 MT of cumulative emissions reductions from 2018-2022. As a result, Manitoba will reduce GHGs by almost 700 kilotons more than the federal backstop, as illustrated below.

Manitoba Plan Cuts Carbon More

(with all actions included)



Legislation

Legislation and regulations establishing economy-wide carbon pricing will be introduced in spring 2020.

Made-in-Manitoba Output Based Pricing System

Bill 16 also establishes *The Industrial Greenhouse Gas Emissions Control and Reporting Act* that enables Manitoba to introduce a separate output- based pricing system (OBPS) for large industrial facilities in the province competing in sectors of the economy that are high risk of carbon leakage.

Scope

The Made-in-Manitoba Green Levy will consist of two complementary elements:

1. An economy-wide carbon levy on liquid, gaseous, and solid fuels equal to $25 per tonne of carbon dioxide equivalent (CO2e)

2. A separate OBPS for large industrial operations competing in emissions-intensive trade-exposed sectors of the economy.

Please note that the OBPS system features will be the subject of consultations beginning with industry and stakeholders and could be adjusted in some of the specific details accordingly.

Greenhouse gases covered under Made-in-Manitoba Green Levy

Manitoba's economy-wide carbon levy will apply to the following greenhouse gases:

- Carbon dioxide
- Methane
- Nitrous oxide

Select fuels and emissions sources will not subject to the Green Levy. Exempt fuels and emissions sources include:

- Marked fuels and other exempt fuels as designated under the Fuel Tax Act
- Direct agricultural emissions from biological sources such as livestock and soils
- Biofuels
- Fuels used in inter-provincial and international flights
- Direct emissions from landfills
- Emissions from fixed, chemical processes

Agriculture and the Green Levy

Marked fuel used in farming operations will be exempt from the Green Levy. Grain drying operations will also be exempt.

Greenhouse Gases Covered Under the Made-in-Manitoba OBPS

The OBPS will apply to industrial facilities (covered facilities) with annual emissions of 50,000 tonnes or greater of carbon dioxide equivalent (tCO2e). There are currently six facilities in the province that exceed the 50,000 tCO2e threshold. Combined, these six facilities account for 1.3 MT of CO2e, contributing approximately 6% to total provincial emissions.

The OBPS will apply to the following greenhouse gases:

- Carbon dioxide
- Methane
- Nitrous oxide
- Sulfur hexafluoride
- Hydroflourocarbons

- Perfluorocarbons
- Nitrogen trifluoride

OBPS Opt-in Provision

An opt-in provision for facilities will be considered:

- Have annual emissions between 10,000 and 50,000 tCO2e
- Compete in an emissions-intensive trade-exposed (EITE) sector/sub- sector of the economy

OBPS Compliance Options

Covered facilities with a compliance obligation must compensate for excess emissions by:

a) Remitting an emissions offset credit at a rate of one credit for each tonne of greenhouse gas emissions in excess of the limit

b) Paying a levy at a rate of $25 per tonne of CO2e in excess of the limit

c) A combination of a) and b)

There are three types of emissions offset credits:

1. Performance Credits – Issued to an industrial operation whose emissions in a compliance period are below the limit that applies in that period
2. Manitoba offset credits – under the regulations, an emissions offset credit system may be established for projects in Manitoba that reduce emissions or remove emissions from the atmosphere
3. Agreements with other jurisdictions – the minister may enter an agreement respecting recognition of credits issued by the other jurisdiction

OBPS Carbon Offset System

Offsets will be considered as a potential compliance option for covered facilities. The Manitoba government is examining options for establishing offset protocols and an offsets registry that would recognize and track offset credits from Manitoba projects. Priority will be given initially to offset activities and protocols in the areas of agriculture, waste, and land use change and forestry as potential compliance options.

Manitoba will work with other jurisdictions to determine if existing or shared registry platforms can be utilized. Offset protocols will be developed to match current and anticipated design standards and criteria in other Canadian jurisdictions.

Conclusion

The province's Made-in-Manitoba Green Levy plan is the right plan for Manitoba. It costs less to Manitoban families than the federal plan with its high, rising carbon tax. It will reduce emissions by more than the federal backstop. It will improve the environment and keep growing our economy.

Our focus is on reducing greenhouse gas emissions causing climate change not simply applying a one-size-fits-all federal carbon tax on Manitoba that will not work as well as our own. Our made-in-Manitoba approach is right for Manitoba because it works better for Manitobans.

www.manitobaclimategreenplan.ca