

Recap of the Federal Climate Action Incentive Fund Rebate Program for Saskatchewan-Based SMEs

December 2019

Introduction

The Saskatchewan Chamber of Commerce (SCC) has been hard at work as of late doing research and keeping up to speed with ongoing developments around the energy and climate change file. Effective April 1, 2019, a federally imposed carbon tax charged on a suite of combustible fuels (gasoline, diesel, natural gas, etc.) came into effect in Saskatchewan. This economy-wide carbon tax is a form of carbon pricing directed specifically at consumer behaviour. It is part of a larger federal carbon pricing strategy (the federal carbon pricing backstop plan) that also includes a carbon intensity performance standard for large industrial emitters. The four provinces subject to the federal backstop plan are Saskatchewan, Ontario, Manitoba, and New Brunswick. The federal backstop can 'top up' in part or in whole, any province whose own climate change strategy does not conform with federal standards.

Carbon pricing is one of the pillars outlined in the Pan-Canadian Framework (PCF) on Clean Growth and Climate Change. Under the PCF, all revenues generated by the tax will be returned to the backstop provinces. Ninety percent of the total revenues will be directed back to households in the form of a Clean Action Incentive rebate. Of the remaining 10%, 4% of those revenues will be directed back to the MUSH (municipalities, universities, schools and hospitals) sector, while 6% will be directed back to eligible small and medium-sized enterprises (SMEs) in each of the four provinces.¹ Finance Canada estimates that a total of \$295 million in revenue will be available to eligible SMEs in Saskatchewan from 2019-2024.

Background

On May 30, 2019, then-Minister of Environment and Climate Change Catherine McKenna announced the Climate Action Incentive Fund (CAIF), an initiative funded by a portion of carbon tax revenues to help support actions around energy efficiency and greenhouse gas (GHG) emissions reductions.

¹ Note: The Government of Canada defines small businesses as incorporated entities with 1-99 employees and medium-sized businesses as incorporated entities with 100-499 employees. Taken together, SMEs are incorporated enterprises with 1-499 employees.

The CAIF intended for SMEs is comprised of two distinct funding streams:

- A [project-based](#) stream currently up and running and;
- A rebate-based stream that is still under development

The SME project stream provides financial supports to SMEs to help undertake larger, more complex capital retrofit projects in the following sectors: agriculture; buildings; transportation; electricity, energy or fuel production; industrial process improvements; and waste management. Eligible project categories and activities are mainly focused around replacing outdated and inefficient machinery and equipment with high-efficiency ones, fuel switching to lower emitting energy sources, and energy management system installs. Saskatchewan was allocated \$21 million for its SME project-based stream, \$10 million for its SME rebate stream, and \$12 million for its MUSH sector (schools) stream, culminating in a total allocation of \$43 million for the 2019-20 fiscal year. There will be preferential allocation of funding for retrofit projects in economic sectors that are likely to be heavily impacted by carbon pricing (e.g. oil and gas, mining, manufacturing). Applicant SMEs must signal intent on purchasing specified machinery and equipment in the online-only application.

Eligibility Criteria

The SME project stream must meet the following criteria:

- The rebate amount can be up to 25% of a project's total cost;
- The value of an eligible project must be a minimum of \$20,000 and a maximum of \$250,000 CDN per project per recipient; and
- a \$250,000 funding cap is applied to a group of applicant franchisees who operate under the same franchise trade name in each eligible province.

In addition, the rebate amount offered under the CAIF can be 'stacked' with funds from other government sources, provided the maximum level of combined government funding does not exceed 100% of the project's total eligible costs. For example, the federal Accelerated Investment Incentive, a capital cost (depreciation) measure that allows businesses to write off a larger amount upfront on the cost of eligible machinery and equipment over a shorter time period, can be stacked with the rebate.

The application window under the SME project stream was initially 90 days starting July 17, 2019. However, ECCC extended the deadline to November 22, 2019. Machinery and equipment purchased prior to April 1, 2019 is not eligible for funding, as the federal carbon tax was not in place and thus unable to generate revenue prior to that date. The CAIF is expected to have multiple application rounds over its projected two-year lifespan.

Policy Input Process

While the SCC continues to oppose the carbon tax, the fact of the matter is the tax is already in place for the time being. Notwithstanding many of our members' strong opposition to a carbon tax, the SCC also believes as a principle that any revenues generated from the carbon tax should be directed into actions that reduce emissions.

In December 2018, the SCC circulated a second carbon pricing survey out to its members and to local Chambers. The survey results overall indicated a strong opposition to a carbon tax, but strong support for reducing emissions. The survey also indicated support for the use of carbon tax revenues toward greater efforts around energy efficiency, along with the greater use of renewable energy resources.

In early 2019, the SCC held policy input sessions with a select group of impacted members. In addition to favouring actions around energy efficiency and increased uptake of renewables similar to the December 2018 survey results, there was considerable positive feedback toward the idea of directing revenues back to businesses either in the form of tax credit or a rebate. The SCC opted to recommend the established policy of directing all carbon tax dollars back to efforts that would demonstrably reduce emissions.

Throughout spring 2019, the SCC had preliminary discussions with officials at Environment and Climate Change Canada (ECCC) around some important considerations that would need to be factored into the design and implementation of such a program. The SCC chose to endorse and therefore promote the Government of Canada's proposed energy efficiency rebate program for SMEs using revenues generated by the carbon tax.

Preliminary Findings

It's been just shy of five months since the CAIF began accepting applications and preliminary findings would suggest that uptake overall has been very strong; in fact, the total value of requested funding among applicant SMEs located in all four backstop provinces has outstripped the total available funding in the envelope by a considerable margin. Breaking it down further by proposals received by sector, the top three sectors measured in terms of number of applications and requested dollars were Agriculture, Forestry, Fishing, and Hunting; Manufacturing; and Real Estate, Rental, and Leasing.

Looking closer to home, Saskatchewan accounted for 253 projects received (but not yet approved). This figure represents a total funding request of about \$12 million and total project expenditures worth \$56 million. Preliminary information suggests that eligible SME applicants from Saskatchewan skew more toward small businesses than medium-sized businesses in both higher impacted and lower impacted sectors. Moreover, Saskatchewan-based applicants were overwhelmingly rural based. This makes sense given the types of industrial activities where these projects would typically be located.

Conclusion

The SCC remains supportive of the CAIF and will continue to monitor and evaluate the program over its anticipated two-year lifespan. To those prospective or current applicants, we welcome any feedback you might have around the program. Your suggestions will be forwarded to officials at ECCC. In the meantime, please see below for some useful web links:

[CAIF Applicant Guide 2019](#)

[SCC Energy Efficiency Strategy](#)

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