Fedeli **Focus on Finance**

Happy New Year, anyway

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Happy New Year, anyway

After the champagne corks were all swept up, and the revellers headed home, the first morning of 2017 presented a stark reality: life just got more expensive in Ontario.

If you stopped at the gas pumps that first morning, you would have found the price of gasoline rose by 4.3 cents/litre. The government first claimed that the cost of cap-and-trade per household would be $156/year, including an increase in gasoline costs of $8/month. But once their phones started ringing, they came up with a new line. "Any costs associated with fighting climate change are borne by fuel distributors who decide how and if the costs are passed on to consumers." So now "it's not us … it's them!" The government also claimed that home heating fuel would go up by $5/month, but the Ontario Energy Board (who won't allow the companies to list the charge separately on the bills) stated it will be up to 34% higher than the government's claim.

Not only is the price not stated separately on any energy bill, there really is no way of knowing how much extra you're going to pay for groceries, clothes, hardware, sporting goods, or any other goods and services you buy. After buying carbon credits, businesses then pass along their increased costs to the end consumers, but there is no transparency, so you will never know the true cost of the cap-and-trade tax.

I started the year off at the Economic Club's annual Outlook breakfast, where the five major banks' chief economists spoke. RBC's Craig Wright stated that any carbon tax should be revenue neutral – that is return all the revenue to families to cope with the higher cost of living it causes. He followed this up with a deputation to the Legislature's all-Party pre-budget consultations and stated, "What I typically think of successful carbon pricing agreements is that they have to be transparent, predictable, gradual and, most importantly, they have to be revenue-neutral. The issue is that carbon pricing is to change the structure of the economy; it's not about growing the size of government, and that's when you get into this revenue neutral side. If it's just about the government grabbing more money and then reallocating it, that's less than ideal, especially in the context of a more competitive environment."

Throughout several of last year's *Focus* issues, I covered various aspects of cap-and-trade. The key message was that this program has absolutely nothing to do with reducing greenhouse gas emissions; it's all about a revenue grab.

Recall that in the March 2016 issue we revealed the government is using cap-and-trade to pay for already-budgeted items, and using those previously-earmarked funds to artificially lower the deficit. Schedule 68 allows this to happen through Subsection 3: **"To reimburse the Crown for expenditures incurred by the Crown, for any purpose described in paragraph 2"**, which includes transportation infrastructure; public transit vehicles; technologies, infrastructure, vehicles, buildings, and structures that reduce greenhouse gas emissions associated with the movement of goods – previously budgeted items! This concern was then shared by the Financial Accountability Officer, who appeared at the Cap-and-Trade Committee Hearings and addressed his concerns about Section 68. The true intentions were also laid bare first in the Fall Economic Statement and then the 2016 Budget, where cap-and-trade proceeds were entered directly into general revenue.

Finally, the Auditor General weighed in with "Ontario's cap-and-trade will not significantly lower emissions within the province by 2020". The Ministry's own study projected that Ontario will achieve less than 20% of the reductions required to meet the province's 2020 target. They plan to count emission reductions achieved in California and Quebec, using allowances purchased by Ontario emitters, to meet the remaining 80% of the target. The Auditor concluded the funds for those purchases "may be leaving the Ontario economy for no purpose other than to help the government claim it has met a target."

January also saw the release of a pair of reports that were of concern. The Ministry of Finance released Ontario's Economic Accounts, which noted that business investment in the province declined by 0.8%, including a drop of nearly 6% in investments in machinery and equipment. In addition, the Financial Accountability Officer released a report that notes Ontario has experienced a decrease in the share of both full-time and private sector positions, and the "employment rate remains well below pre-recession levels." The FAO also found that employment prospects for youth remain stagnant, with unemployment rates of nearly 15%; well above the national average. These are on top of the earlier news that Ontario's foreign direct investment has dropped from 1st to 4th place in North America; from $7 billion to just $4 billion. Ontario's market share has been cut in half from 12% in 2015 to just 6% last year.

As has been the case month after month, hydro still dominates the discussions. I spent most of this month involved with the all-Party pre-budget consultations, which were held throughout Ontario. I've mentioned Craig Wright's comments on cap-and-trade, but he also weighed in on the hydro rate crisis, telling the committee "I think electricity is one of the many areas that makes Ontario investment less attractive than only a short while ago." He was backed up by many vocal groups, including Rory McAlpine, a Sr. VP with Maple Leaf Foods who told the committee "our electricity price increased by 18% in 2016 … I think anyone would agree that 18% is a large increase." He added, "If we had operated in Manitoba instead of Ontario it would have been a 65% saving on our electricity bill." Norm Beal, CEO of Food and Beverage Ontario also weighed-in on skyrocketing electricity prices. He said he's hearing from his members, who receive daily calls from U.S. jurisdictions asking them to relocate for cheaper hydro. His members are telling him "We've had enough. We're starting to look at the alternatives south of the border." Gerry Macartney, CEO of the London Chamber of Commerce, said "Many decisions are being made because of the high cost of electricity, and companies are looking at other, more competitive jurisdictions." Frank Dottori, CEO of White River Forest Products, summarized the feelings of most deputants; "Most jurisdictions use energy costs to promote economic development, not to kill jobs, which is what we're doing in Ontario."

You'll need to pull even more money out of your wallet for the myriad of fees that came into effect this month. If you drive a car – you'll pay more. If you heat your home with gas – you'll pay more. If you camp, fish, or hunt – you'll pay more. We're not talking chump change here – vehicle and driver registration fees have increased by more than $500 million over the last four years. In fact service fees will cost families $2.74 billion this year, up by nearly 40% in just five years.

There are also a series of regulations that went into effect. Restaurant chains with 20 or more locations must start posting caloric content on their menus. After seeing this at the Quorum Restaurant here at Queen's Park, I've nixed my daily Caesar salads for lunch! Travel agents and wholesalers must include the all-in price in their advertising. Towing companies must now post their rates on their trucks, must accept credit cards, and cannot demand cash. Spousal and child support will no longer be treated as income for people receiving social assistance or those on ODSP, which will end the claw-back from this. And the maximum cost of a $100 payday loan will drop to $18 from $21.

I want to end this month with a story close to home. Recall last October, when the Premier announced Ontario will be buying $70 million of water-power-produced electricity from Quebec Hydro. The government boasted that they signed a deal for Ontario to import up to two terawatt hours of electricity annually from Quebec "allowing the province to reduce its use of natural gas to generate power." The province further boasted the shift from Ontario-produced natural gas power to Quebec-produced water power will be good for the environment, cutting annual greenhouse gas emissions by about one million tonnes. Well, it also cut jobs, at home. Fast forward to January, and you will note that natural gas 'non-utility generators' (NUGS) throughout Ontario are starting to shut down, exactly as we forecasted would happen. In my home town of North Bay, the NUG here has been idled, and 11 people were sent home. The same can be said for another half-dozen plants across Ontario – putting some 85 people out of work.

Conclusion

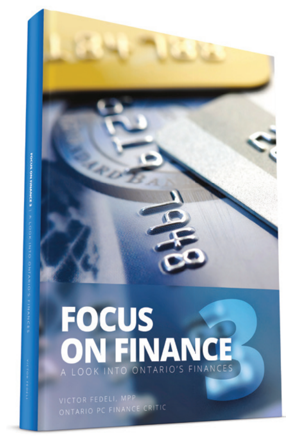
Ontario families already struggle to pay some of the highest hydro bills and taxes in the country, yet the cap-and-trade scheme is adding costs onto everything from gas to groceries. A revenue neutral plan could mean a refund on your hydro bill or a cut on income taxes. The plan would also reduce emissions here at home, while putting money back into the pockets of Ontario families.

Key Questions

Will the Minister admit the cap-and-trade revenue will be used to artificially balance the budget?

Will the government make the cap-and-trade program revenue neutral?

Why does it always take the Auditor General, Financial Accountability Officer, or a Freedom of Information request to get the real numbers from the government?



Similar stories of waste, mismanagement, and scandal are disclosed in my newest book, **Focus on Finance 3**.

Please go to **www.fedeli.com** to download your own copy of the book.

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