Carbon Tax Increase: Bad News for These 2 Stocks

Description

The federal government's recent announcement that carbon tax will increase by 566% over ten years could impact Canadian businesses, industries, and consumers. The Trudeau administration plans to raise the existing carbon tax ($30/tonne) starting in 2022 until it reaches $170/tonne in 2030 to reach the Paris target.

Oil sands companies like **Suncor Energy** (TSX:SU)(NYSE:SU) and **Cenovus Energy** (TSX:CVE)(NYSE:CVE) face competitive risks in the international markets if the plan becomes law. Similarly, both companies might not be able to pass on higher carbon tax-costs to consumers. Costs such as home heating oil, natural gas and propane might rise.

Greenhouse gas emissions targets

Prime Minister Justin Trudeau's plan, "A Healthy Environment and a Healthy Economy," aims to bring some momentum to his administration's climate change agenda. Canada has persistently failed to meet greenhouse gas (GHG) emissions targets. With the new plan, the government expects to achieve between 32% and 40% below 2005 levels by 2030.

Carbon price supporter

Oil sands king Suncor recognize the importance of carbon risk. Even its CEO Mark Little is a known supporter of a carbon price for years. For decades now, the focus of this $33.75 billion company is carbon management. Management says Suncor is making significant progress in achieving its goal to reduce GHG emissions intensity by 30% by 2030.

Despite the challenging economic environment in 2020, Suncor continues to invest in reducing emissions from its base business. The company is also looking for new opportunities for energy system transformation. These twin initiatives are critical to business resiliency and long-term shareholder value.

Meanwhile, Warren Buffett's **Berkshire Hathaway** keeps its Suncor shares, notwithstanding the horrendous stock performance this year. The legendary investor believes the energy company can generate stable cash flows for decades, given its long-lived assets, whose lifespan is approximately 26 years. Likewise, Suncor Energy pays a lower but decent 3.8% dividend.

Net-zero emissions by 2050

Cenovus Energy is nearly four times smaller than Suncor. However, the $9.3 integrated oil and gas company also recognizes the growing concerns of people globally about climate change.

Management plans to reduce per-barrel GHG emissions by 30% by the end of 2030 (2019 baseline) and hold absolute emissions flat by year-end 2030. The company will likewise reclaim unused 1,500 decommissioned well sites. Cenovus's long-term ambition aligns with the government's target. It hopes to achieve net-zero emissions by 2050.

Like Suncor, this energy stock is underperforming. The year-to-date loss is 58%. On March 27, 2020, the stock price tanked to a low of $2.35 due to the pandemic and oil price war. As of December 18, 2020, Cenovus trades at $7.57 per share, or 322% higher than its COVID-low.

Cenovus is preparing to take over **Husky Energy**. The Alberta Court of Queen's Bench recently approved the coming together of the rival companies. While the new company will be more competitive, profitable and sustainable, it will lay off thousands of workers. The deal will close in the first quarter of 2021.

Critical climate action plan

Increasing the carbon tax is a critical climate action plan by the government. Some businesses and industries will feel economic pain. But a carbon price will discourage greenhouse gas-intensive activities. It should help Canadian companies create low-carbon goods and services.

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