

Protect the viability of companies that have reduced carbon emissions in Ontario

Submitted by the Sarnia Lambton Chamber of Commerce and co-sponsored by Windsor-Essex Regional Chamber, Sault Ste. Marie Chamber of Commerce, Newmarket Chamber of Commerce

Issue:

Ontario's Cap and Trade system effectively penalizes companies that are early adopters of technologies that reduce, recycle and capture carbon emissions. By recognizing and rewarding these efforts, there would be greater incentive for companies to invest in new technologies as available that reduce carbon emissions on a continual basis. In addition, gaps in programming under the *Climate Change Mitigation and Low-carbon Economy Act, 2016* and the Climate Change Action Plan similarly punish early adopters and encourage a "wait-and-see" approach to investments aimed at reducing GHGs. Companies need an assurance that funds invested in Ontario's Greenhouse Gas Reduction Account will ultimately provide benefit in the form of accessible programming, regardless of the compliance period in which the funds were invested.

Background:

In 2017 members of the Ontario Chamber of Commerce agreed that the cap and trade system should be suspended "with appropriate cost mitigation to affected businesses". Should suspension not occur or should another carbon pricing mechanism replace it, the viability and competitiveness of Energy-Intensive Trade-Exposed (EITE) sectors should be strategically ensured so they can compete with manufacturers operating in jurisdictions that do not have similar taxation.

EITE manufacturers operating in Ontario, such as greenhouses, oil and gas, steel and chemical manufacturers, are unfairly impacted by Cap and Trade, which erodes their competitiveness, compromises their ability to continue operating in Ontario, and makes those jobs vulnerable.

Many EITE manufacturers are "technologically mature" and already amongst the most efficient in the world. Emissions processes can generally be described variable or fixed, with the latter being fundamentally limited by the boundaries of currently known scientific processes involved in the manufacturing process. In other words, many industries have improved technologically and thermodynamically to a point that any new advancements will require the development and application of entirely new technologies, and in some cases entirely new chemical processes. Cap and Trade is effectively taxing these early adopters by imposing the annual decline cap factor, falsely assuming that they are capable of reducing their emissions.

Many manufacturers have also found ways to capture and recycle emissions (i.e. sell to third parties such as greenhouses, or use it to manufacture other products onsite), yet protocols for emission allowances don't recognize this. It is assumed that emissions generated are also released. Allowance calculations should recognize these efforts, and not penalize the companies through taxation, as they directly help achieve the government's goal of reducing atmospheric GHGs.

The Green Ontario Fund was established by the Ontario Government to distribute Cap and Trade revenues. Its programs, including GreenOn Industries, the Industrial Conservation Initiative and SMART Green, provide funding to manufacturers to invest in machinery, equipment and processes that reduce their carbon emissions. However, if advanced technical capabilities don't exist, companies miss out on the funding. The Green Ontario Fund should provide guarantees that some funding will be available long term to these sectors as technologies become available.

Ontario's carbon pricing system should recognize the improved performance and environmental leadership of early adopters by fairly distributing emission allowances and revenues derived from carbon pricing mechanisms.

Business in Ontario are also concerned about the threat of "Carbon leakage" a concept whereby trade exposed industries, competing in international markets against countries with inferior environmental mitigation and carbon pricing regimes are unable to compete and suffer decline in production. According to a review of models¹ based on the California Cap and Trade experience, a 10 percent increase in domestic production costs resulted in a decline of ten (for median intensity) to twenty (for higher intensity manufacturing and resource industries) percent decline in domestic production².

Recommendation:

That the Government of Ontario:

1. Refrain from applying annual declining cap factors to industrial sectors with fixed emissions limited by currently available technological and scientific processes.
2. Account for captured and recycled CO₂ and reduced emissions in allowance calculations.
3. Develop a framework that allows carbon pricing revenues to be accessed in the long term, regardless of compliance period, to ensure equitable distribution to sectors and/or innovative individuals at the front of the innovation curve who are working to develop modern low-carbon technology.
4. Dedicate a portion of carbon pricing revenues to programs that incentivize Energy-Intensive, Trade-Exposed Industries to conduct R&D to advance low carbon technologies.
5. Explore policy mechanisms within Free Trade Agreements and with World Trade Organization that cover Border Carbon Adjustments and Emissions Permits to create a fairer market for Ontario EITE.

¹ Brunnermeier, S. B. and A. Levinson (2004). Examining the evidence on environmental regulations and industry location. *The Journal of Environment & Development* 13(1), 6–41.

²Fowlie, Reguant & Ryan. "Measuring Leakage Risk" (2016).

<https://www.arb.ca.gov/cc/capandtrade/meetings/20160518/ucb-intl-leakage.pdf>