

Carbon Pricing: An Urgent Need to Balance Competitiveness for Future Sustainability

Issue

Industry has long recognized the need to reduce carbon emissions, and have consistently applied new research in effort to minimize environmental impacts. However, some industries, particularly Emissions-Intensive and Trade-Exposed (EITE), will be put at a competitive disadvantage from carbon pricing. The provincial and federal governments have identified (EITE) industries as mining, smelting and refining, pulp and paper, iron and steel, cement, lime and gypsum as well as chemicals and fertilizers. Several reports - including work done by the Eco fiscal Commission and the Alberta Government have argued that EITE will require measures to remain competitive.

Background

On December 9, 2016 the Government of Canada announced the “Pan-Canadian Framework on Clean Growth and Climate Change”¹ which outlined a national strategy to combat climate change and reduce carbon emissions. It lists carbon pricing as the chief method of reducing Canada’s carbon emissions. This report lists measures that are already underway to reduce GHG emissions that include:

- Federal measures for increasing energy efficiency of equipment in buildings;
- Ontario’s commitment to join the Western Climate Initiative cap-and-trade systems
- Alberta’s coal phase-out, carbon levy, and oil sands emissions cap;
- Quebec’s regulations for new high-rise buildings; and,
- British Columbia’s low carbon fuel standard”

Due consideration must be given to the measures that many provinces have already put into motion, particularly considering the additional effects that raising the benchmark of carbon pricing to \$50 per tonne by 2022 may have on their economies. With that in mind, we urge the Canadian government to refer back to the guiding principles of the Pan-Canadian approach to carbon emissions that states that “pricing policies should minimize competitiveness impacts and carbon leakage, particularly for emissions-intensive, trade-exposed sectors”.

Provinces have the opportunity to adopt an output-based allocation system whereby facilities should be allowed to emit a certain amount of greenhouse gases free of charge from a carbon price. This approach protects low emission industries from competitiveness impacts that could shift production to other jurisdictions. Free emissions may be determined based on product-specific emissions benchmark. Benchmarks may be set relative to high-performing industry peers or competitors who produce the same or similar products.²

Canadian industry must compete with imports of product from outside of the country where there is no carbon pricing mechanism in place. Canadian jurisdictions will be paying one of the highest costs for carbon anywhere in North America, yet, all manufactured products that are imported are not subject to the costs of their carbon footprint. This gap could lead to a competitive disadvantage for local producers and carbon leakage where the GHG emissions are merely shifted elsewhere. As an example, after the B.C. government implemented a price on carbon, imports of cement products rose from 6% to 42% between 2008 and 2014.³

Recommendations

That the federal government work with the provinces and territories to:

¹ <https://www.canada.ca/en/services/environment/weather/climatechange/pan-canadian-framework.html>

² <http://www.sciencedirect.com/science/article/pii/S0921800915305395>

³ <https://www.biv.com/article/2015/12/lifting-carbon-tax-freeze-could-burn-bc-industries/>

1. Establish a threshold of no-cost emissions based on industry and product specific benchmarks in order to assist in preventing a shift of production to other jurisdictions outside of the country.
2. Implement the study of the rate of carbon leakage by region and sector in order to assess the global impact of our carbon policies.
3. Ensure, interim to the above, that measures to reduce carbon output, put into motion, are supported by a mechanism that relieves industry of carbon costs.