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Via email: carbonpricing-tarificationcarbone@canada.ca;
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(Original to follow by mail)

The Honourable Catherine McKenna
Minister of Environment and Climate Change
Centre Block, Suite 433C
House of Commons
Ottawa ON K1A 0A6

RE: Technical Paper on the Federal Carbon Pricing Backstop

Dear Minister:

The Business Council of British Columbia (the Business Council) is pleased to submit these summary comments on the Government of Canada's Technical Paper on a Carbon Pricing Backstop.

We commend the government for working to reconcile provincial responsibility for climate action with the objectives and authorities of the national government — a difficult task, given shared jurisdiction over environmental matters, significant differences in industrial structure across the country, and varying approaches among the provinces to addressing greenhouse gas emissions. We acknowledge your desire to chart a path forward for Canada, as well as your commitment to protect Canada's competitiveness and prevent "emissions leakage."

The Business Council of BC supports a pan-Canadian strategy for managing our collective contributions to global GHG emissions. In the long-term, effective strategies must draw from and rely on Canada's history of collaboration, cooperation, and respect for jurisdictions. At the same time, policymakers in Canada must exercise caution when implementing schemes that may directly or indirectly undermine the economic viability and competitiveness of industries required to grapple with escalating production and operating costs due to climate policy measures.

Increasing the domestic price of carbon, and the addition of other cumulative costs through new regulations and changes to existing regulatory processes, runs the risk of threatening the core of Canada's export economy – our natural resource, manufacturing, transportation and infrastructure industries. The result will be carbon leakage and a shift of market advantage to other jurisdictions.

Canadians ultimately pay the price, with reduced jobs, slower growth and less government revenue – all without any global environmental benefit.

Importantly, Canada's approach to climate policy cannot overlook the action or inaction of our neighbour, main market, and closest trading partner, the United States. South of the border, national regulatory constraints are loosening, energy production is expanding, and substantial reductions in business taxes may be in the offing. As you know, since 2012 the United States has emerged as the world's top producer of petroleum and natural gas,[1] and it boasts sizable reserves of both hydrocarbons. The US is gaining both global and North American market share as a supplier of energy, thus affecting the demand for Canadian energy products.[2] Exacerbated by the recent shift to an 'America First' policy stance and greater political support for protectionism, energy issues may become the subject of future Canada-US trade disputes, notwithstanding the mutual benefits that flow from integrated energy markets. Looking ahead, a problematic scenario awaits Canada if the United States continues to eschew a national carbon pricing policy while our country puts a steadily rising price on GHG emissions.

As we read the Technical Paper, the foundation of the federal proposal appears to be Alberta's not yet implemented carbon pricing scheme. The latter has some key advantages, in principle, including providing a mechanism to mitigate the impact on Canadian emissions-intensive and trade exposed (EITE) industries that produce or rely on fossil fuel energy inputs. This is an approach used in many other jurisdictions – and one that the Business Council supports. However, it must be applied in a transparent and simple fashion to ensure it is trusted and efficient. Like British Columbia's carbon tax, Alberta's carbon pricing scheme offers rebates to citizens based on income. As a backstop, we are pleased that Canada is committed to flowing back revenues collected from carbon pricing to residents and businesses of the provinces where a federal backstop may come into effect.

In the case of British Columbia, it is worth noting that the existing carbon tax regime has no offsetting measures that aim to address the competitiveness challenges confronting energy-intensive firms forced to compete with producers in jurisdictions with no or zero carbon prices. Over time, BC's rising carbon tax has led to higher production and operating costs amounting to up to $50 million a year for the largest companies – costs that similar firms in other provinces and in most foreign jurisdictions do not bear. This disparity in tax-inclusive energy costs has had a negative economic impact on many BC producers of tradeable goods, limiting the deployment of capital to advance the goal of reducing emissions. While this is a provincially-created flaw in the BC carbon pricing model, careful thought is needed in the Canadian context on how to address this issue going forward.

Returning to the Technical Paper, the Business Council of BC has several questions and concerns which we hope the federal government will consider and respond to.

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[1] https://www.eia.gov/todayinenergy/detail.php?id=31532&src=email#.WTgKbACheIA.twitter.

[2] Statistics Canada, Natural gas transmission, storage and distribution, April 2017. "Canada exported 266.9 million gigajoules of natural gas by pipeline to the United States in April, up 1.8% from the same month in 2016. Imports of natural gas from the United States rose 54.7% compared with April 2016, to 98.0 million gigajoules."

Backstop: As a convention, a backstop provision sets the minimum standard of performance and only applies to provinces without a carbon pricing policy in place. What's missing from the Technical Paper is a clear definition of the minimum standard reference point. What are the criteria for determining the equivalency of emissions management approaches? Must a jurisdiction implement a price on carbon, or will it be able to choose other methods for reducing emissions (e.g., technology requirements)? The underlying policy goal is to lower emissions; in theory, some provinces could opt for a non-price approach. As we move to pan-Canadian carbon pricing, how will the federal government recognize and manage the multiple obligations imposed on companies that operate in two or more Canadian jurisdictions?

Administrative complexity and efficiency: The federal proposal lays out a complicated hierarchy of responsible parties, and as a hybrid system it entangles a carbon levy on fuels and an emissions credit trading system for major industries. If implemented, we believe this model is likely to lead to rising administrative costs for both government and industry, because of the need for staff and systems to handle exemptions, rebate systems, registrations, filings, and monitoring and compliance. The Business Council favours simplicity and transparency in the design of regulations, as well as the use of existing systems and procedures – although these may need some modifications.

Output-based allocation: The Business Council acknowledges Canada's attempt to recognize the unique competitiveness issues facing EITEs, particularly in the energy, mining, and energy-intensive manufacturing industries. In our view, imposing additional costs on Canadian export products simply transfers wealth to foreign states and aids in emissions leakage and capital flight for value-added activities that otherwise would locate in Canada.

Other governments are aware of this risk. Of interest, Japan levies a tax on all imported fossil fuels products as part of its overall climate policy, to mitigate the impact of its climate policies on domestic producers.[3] Canadian energy exporters to California must buy allowances, the cost of which comes off their export sales margins. A made in Canada carbon price does not reduce this obligation or cost. Based on the Technical Paper and the policies adopted to date in several provinces, we see a risk that Canada will get no credit for its commitment to carbon pricing (i.e., our carbon taxes/levies are not deducted from production costs). Ultimately, a policy that steadily increases energy-related costs for Canadian industry can only harm our country — leading to lower exports and less revenue for use at home to support investments in energy-efficiency and the development of a lower-carbon capital stock.

The Technical Paper is also missing details on how standards for various industries are to be set. Is Canada looking to adopt Alberta's standards, or something else? How will the federal approach reconcile supply chain differences across industries, provinces, and vis-à-vis global and North American competitors? What and how is the benchmark standard for an industry or sector to be established? Are the standards to be adopted as a regulation under the *Canadian Environmental Protection Act,* or in

[3] https://www.env.go.jp/en/policy/tax/20170130_greening.pdf; 10.63% of Canadian exports to Japan are mineral fuels and oils https://www.asiapacific.ca/statistics/trade/bilateral-trade-asia-product/canadas-merchandise-trade-japan.

some other way? What is the place and process for offsets? What role, if any, will market-based incentives have in encouraging business investment in facility upgrading and innovation in Canada? How will Canada make sure it does not unfairly penalize industries with aging facilities, unique components of their industrial processes, and/or an existing capital stock that was directly influenced by past government policies and may now have limited options for technology upgrading and other emissions-reducing actions?

Further, we note that many BC and other Canadian companies have been early movers to invest in technology or capital equipment to reduce emissions and lessen the environmental impact of their production activities. It is unclear what benefit, if any, they will receive for having made these investments under the backstop model, compared to similar companies in other jurisdictions. Also of concern is that some of these sectors or firms are being asked to apply regulated technology and compliance solutions (on which more below) that come in addition to the price on carbon emissions.

Applicability of the approach beyond the backstop: As we understand it, the backstop applies to any province without an 'equivalent' carbon price per the proposed federal scale. How is equivalency to be measured, given the differences in provincial policies and programs and a lack of consistency in both the carbon price (i.e., BC versus Alberta versus Ontario/Quebec) and its scope of application (e.g., economy-wide versus cap and trade versus regulation as proposed by Nova Scotia)?

The Business Council does not favour additional fees, regulations, processes and costs on top of those already imposed in British Columbia, unless they are equivalent in their total cost to similar costs imposed on like companies and industry sectors in other jurisdictions. What is needed is a commitment to transparent and objective assessment reflecting the attributes of each sub-national level economy and its industrial makeup and economic realities.

Plan review: The Business Council supports the notion of a regular review of the plan. Consistent, repeatable terms of reference and scope are important for enabling data collection and comparison of the plan's effectiveness across the country over time. We urge you to work with provincial and industry officials to flesh out the relevant details and encourage a specific focus on EITEs, which we are happy to assist with.

Use of carbon pricing revenues: According to a recent media story, you have stated that "Ottawa will decide how the revenues collected by the federal tax are rebated …. [and]… every penny will be rebated to individuals and businesses."[4] We endorse this approach, and urge you to stick to the commitment to allow provinces to decide how to use the associated revenues. Most Business Council members are comfortable with the principle of revenue neutrality as it has applied with the BC carbon tax – although it must be said that in recent years, the business sector has received significantly less in offsetting tax relief than the provincial government promised when the carbon tax was introduced in 2008. Stated differently, BC's carbon tax system has increased overall production, operating and shipping costs for

[4] http://www.ctvnews.ca/business/constitution-gives-ottawa-right-to-impose-carbon-price-on-provinces-mckenna-1.3418862.

business and industry, even though the revenues raised by the carbon tax have helped to finance a handful of tax reductions that benefit certain segments of the business community. In our view, it is important for governments to avoid directing specific technology outcomes and instead enable choices by companies and sectors that fit best with their circumstances. This means allowing firms to draw on their own expertise to reduce emissions in the most cost-effective manner possible.

Pricing versus regulation: The Business Council supports carbon pricing aimed at gradually changing behaviour through a price signal that affects both households and companies. Most of our members see carbon pricing as a better alternative to command and control regulation, inflexible product standards, subsidies/incentives, and other forms of state intervention.

As noted above, of concern to us is Canada's apparent desire to implement both carbon pricing and more/new regulations. In fact, the federal government's actions and policy proposals to date appear to reflect the elements of a scenario laid out in the recent publication, Canadian Pathways Towards Deep Decarbonization (CPDD).[5] CPDD is not a policy document that has been vetted, debated, or approved by Cabinet or Parliament; it should not form the basis for federal government policies going forward.

In our view, this dual approach — relatively aggressive carbon pricing, coupled with a much heavier dose of top-down government regulation — weakens the economic efficacy of (and the policy rationale for) carbon pricing and represents unintended risk for the economy and business competitiveness. Specifically, we fear that the growth of federal regulation, despite good intentions, will lead to a situation where Canadian firms face competing or conflicting regulatory requirements across multiple federal, provincial, regional, and municipal jurisdictions. This is an undesirable outcome that points to higher economic costs – both in aggregate, and per unit of emissions abated – as well as disincentives for investment, facility upgrading, and innovation in Canada.

Finally, aspects of the federal policy proposal encourage punishment over incentive, and on balance the approach does not seem likely to eliminate the substantial differences among provinces in GHG management strategies – thus leaving the issues of competitiveness, emissions leakage, and achieving targets at least partially unresolved. Our national approach must weave together actions and obligations consistent with the Canadian tradition of collaborative negotiation, while also enabling and encouraging investment in existing and new enterprises to help lower GHG emissions over time. If we fail, our firms will have fewer opportunities to export innovative Canadian clean tech and clean energy solutions.

In summary, we support the Government of Canada's commitment to develop a pan-Canadian climate policy framework that ensures equivalent cost and policy approaches and gradually lowers GHG emissions. The intended effect should help manage uncertainty, particularly for the Canadian natural resource and manufacturing sectors which operate in highly competitive global markets. Minister, we

[5] http://deepdecarbonization.org/wp-content/uploads/2015/09/DDPP_CAN.pdf, page 14.

stand ready to work with you and your colleagues to address the questions and concerns raised herein so that sound solutions can be canvassed and implemented.

The Business Council, established in 1966, is an association representing 260 large and medium-sized enterprises active in every sector of British Columbia's economy. We are a public policy organization, providing research, analysis, commentary, and advocacy on issues relevant to strengthening Canadian and BC competitiveness and prosperity. We support competitive taxes, effective and nimble regulation, and responsible fiscal policies to enable vigorous business activity and provide the resources necessary to pay for education, health care, and other public services for citizens. We have a proven record of constructive policy advocacy on environmental sustainability, economic reconciliation with First Nations, innovation and productivity, climate change and energy, tax and fiscal policy, sound regulation, trade policy, and the development and attraction of skills and talent.

Our members come from all major sectors of the province's economy, including forestry, energy, mining, manufacturing, transportation, advanced technology, heath research and life sciences, tourism, retail and wholesale trade, construction, utilities, post-secondary education, and professional, scientific, and technical services. Taken together, the enterprises, academic institutions, and sectoral associations affiliated with the Business Council account for approximately one-quarter of all private sector payroll jobs in BC.

We would welcome further dialogue with you and your colleagues on these matters.

Yours sincerely,

Original signed by
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DM/vjc

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