Ottawa
Room 518, Confederation Building
Ottawa, Ontario K1A 0A6
Tel.: 613-996-1119
Fax.: 613-996-0850

Ottawa
Pièce 518, Édifice de la Confédération
Ottawa (Ontario) K1A 0A6
Tél. : 613-996-1119
Téléc. : 613-996-0850

HOUSE OF COMMONS
CHAMBRE DES COMMUNES
CANADA

Constituency
1 - 9711 Fourth Street
Sidney, British Columbia V8L 2Y8
Tel.: 250-657-2000
Fax.: 250-657-2004

Elizabeth May
Member of Parliament / Députée
Saanich—Gulf Islands / Saanich—Gulf Islands

Circonscription
1 - 9711, rue Fourth
Sidney (Colombie-Britannique) V8L 2Y8
Tél. : 250-657-2000
Téléc. : 250-657-2004

Hon. William Francis Morneau
Minister of Finance
Department of Finance Canada
90 Elgin Street
Ottawa, ON K1A 0G5

Hon. Catherine McKenna
Minister of Environment and Climate Change
House of Commons
Ottawa, ON K1A 0A6

February 12, 2018

Re: Consultations on the draft legislative proposals to implement the federal carbon pricing system

Dear Ministers,

I have stood in the House on countless occasions to ask what actions this government is taking to reach the Paris target of holding global average temperature increase to no more than 1.5˚C above pre-industrial levels. Repeatedly, I was told to wait for the national carbon pricing scheme. With the legislative proposals for the *Green House Gas Pollution Pricing Act* before me now, I see a push in the right direction. I even see that 'climate' appears seven times in the document. However, I am not at all convinced that the mechanisms put forward in this draft possess the stringency we need to reduce greenhouse gas emissions to a level compatible with the Paris target. I am not even convinced it will hit the much weaker, Harper-era target this government has pledged, 30% below 2005 levels by 2030. This jeopardizes our ability to stay within the critical 2˚C range.

On the whole I can say it is better to have a Federal Backstop than none at all, and that I understand carbon pricing is just one part of what the government intends to do and must do, to address climate change effectively. I can applaud the broadened application to non-combustion sources of emissions, like venting and flaring. I am also pleased that rates will be calculated according to the UNFCCC's global warming potential factors and emissions factors.

Elizabeth.May@parl.gc.ca

However, despite scheduled increases to the carbon levy over the next four years, the rate starts and ends at an unacceptably weak place. I believe a schedule extending to 2030 would have sent a stronger price signal to producers and consumers while allowing more time for business and investment planning.

I am most taken aback by the Output Based Pricing System (OBPS). I expected a carbon tax that would apply, per tonne, to actual emissions across the board. Instead I see proposed a combination of intensity targets, sector-by-sector standards, and unbelievably generous fuel exemptions for big industry. We cannot afford to weaken the Pan-Canadian Framework, which even now cannot take us to Paris; we need every possible tonne reduction. Jurisdictions that have carbon pricing in place stress the importance of simplicity. Exempting large polluters from the treatment we would give smaller ones and creating a separate system for monitoring standards, intensities, compliance units, and offset credits does not fit my understanding of 'simple.' Globally we are seeing incentives moved away from fossil fuels to renewables. I think Canada can do more to push it in this direction. For this reason, I lay out areas of the legislative proposals worth reconsidering, restructuring, or rescinding, all with an aim to decarbonize Canada's economy at a necessarily more rapid pace.

A Missed Opportunity for Green Tax Reform

There was a missed opportunity this year to dovetail tax reform with pollution pricing. The administration has made both a priority for this legislative year, but it has failed to view them as complementary measures. A higher carbon levy could have been paired with closing corporate tax loopholes and a reduction in personal income and small business taxes. Further, the elimination of the complicated and inefficient system of subsidies and tax havens, paired with an estate tax and financial transaction tax could have generated revenue for the Green Climate Fund. Canada has a bigger role to play in subsidizing adaptation and mitigation efforts in developing countries on the frontlines of climate disaster, particularly as the United States withdraws much need support. Altogether, carbon pricing could have been cast as an efficiency gain in areas of the country that express less enthusiasm for environmental reform.

The Green Party of Canada is in favour of a Carbon Fee and Dividend system, which would greatly simplify and cohere what is currently a patchwork set of proposals for reducing greenhouse gas emissions countrywide. The levy would apply on fossil fuels at the source, at the point of extraction or importation. Border adjustment tariffs consistent with the World Trade Organisation's rules would account for competitiveness while generating additional revenue. This revenue would then be recycled to all Canadians as a per capita dividend, either in the form of a rebate cheque, a personal income tax reduction, or a Refundable Climate Action Tax Credit to lower-income families. The dividend has a built-in progressive feature: it would account for a higher percentage of annual income in lower-income households or for those who conserve more.

Taking advice from economists, this fee would start at $50/t$CO_2$ and work its way up in $10 annual increments to $200/t$CO_2$ by 2030. This is a far more realistic carbon price that sends a clear signal to producers and consumers to reduce their dependence on fossil fuels. It would also make sense to index the price to inflation, so that the incentive to reduce emissions does not decrease over time the way it did in B.C. when the rate was frozen in 2012. Canada's overall goal must be a substantial decarbonization of our economy. The Green Party Carbon Fee and Dividend proposal will allow Canada to achieve a target of 65% less CO_2 in 2030 compared to 2005, and zero emissions by the end of the century. This method reduces both carbon emissions and poverty, and creates no new and expensive bureaucracy.

The Schedule of Levy Rate Increases

I understand the concern that taxpayers and voters will not like seeing drastic increases at the pump, that incremental change makes carbon pricing more palatable. But these rates will not add up to keeping our commitment to the Paris Agreement. It has been reported that, by its own calculations, the government would need to impose a $100/t$CO_2$ levy in 2020, going up to $300 by 2050 to stay on track with its commitment.[1] Marc Lee, senior economist for the Canadian Centre for Policy Alternatives, has pointed out that while Canadians accept low prices at the pump as a given, Europeans consider rates 50-90% higher than what we have here as their normal. He also estimated that if the government levied $140-150/ t$CO_2$, Canadians would see gas prices close to the level they were at in 2014 before the price of oil plummeted.[2] Had a carbon price been introduced ten years ago, there might have been an argument for starting as low as $10 and introducing change gradually. But Canada dragged its heels and emissions have soared. The efforts we make now must measure up.

I echo the Pembina Institute's call for Environment Canada to commit to including those sources of emissions not currently under the levy as the accuracy of measurements improves. This would include emissions from landfill sites, for instance, or methane from oil and gas production. A major piece of the puzzle currently missing is offshore oil and gas exploration, and the electricity sector. 18% of Canada's electricity comes from emitting sources and nuclear energy, which has its own environmental costs. I avidly await the government's proposals in this area.

[1]Marie-Danielle Smith, "Secret briefing says up to $300-per-tonne federal carbon tax by 2050 required to meet climate targets", *The National Post* (30 March 2017): http://nationalpost.com/news/politics/secret-briefing-says-up-to-300-per-tonne-federal-carbon-tax-by-2050-required-to-meet-climate-targets
[2]Marc Lee, "A reality check on a national carbon price", *Behind the Numbers* (4 October 2016): http://behindthenumbers.ca/2016/10/04/reality-check-national-carbon-price/

Jurisdictional issues

After the Harper-era of federal governance, I can understand the need to repair relationships with the provinces. But giving them license to develop their own carbon pricing programs can turn from a tool of empowerment to downloading federal responsibility to the provinces. I completely disagree with the Ecofiscal Commission's report from 2015 that proposed a disturbingly complicated patchwork of different carbon pricing regimes across different provinces. The result is incoherence and ineffectiveness from the perspective of both producers and consumers.

I would urge the government to set clearer guidelines on how provincial programs will be evaluated for compliance. How will the federal government avoid giving advantage to one province over another? For instance, the Tax Executives Institute point out that Alberta has an upstream exemption for oil and gas until 2023.[3]

What is the protocol for integrating the Federal Backstop where a jurisdiction falls short? Clean Energy Canada suggests that a federal 'top-up' could produce significant administrative complexity.[4] I recommend along with them that the federal government explore whether imposing the backstop in whole rather than in part is more cost-effective and better for business in a jurisdiction does not meet the benchmark.

How does the CRA and Finance Canada intend to make transparent the collection and return of revenue generated by the carbon levy back to the provinces? Has consideration been given to the Pembina Institute's recommendation to create a fund for backstop revenues separate from the Consolidated Revenue Fund of Canada?

Finally, it is unclear why rail is subject to the federal carbon levy for any portion of a journey that is in a backstop jurisdiction whereas aviation and marine transportation are to be taxed on intra-jurisdictional travel only. As the government moves forward with its plans to tax the use of aviation fuel interjurisdictionally, it should impose higher rates for flights that are long-distance, high altitude, and/or at night as they emit higher amounts of NO_2. As a preliminary question, I would ask how the forthcoming model will interact with or potentially set an example at the international level, for instance with the development of the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA).[5]

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[3] Janice Lucchesi, "Comments on Technical Paper of the Federal Carbon Pricing Backstop", *Tax Executives Institute, Inc.* (30 June 2017): https://www.tei.org/advocacy/submissions/tei-files-comments-canadas-technical-paper-regarding-federal-carbon-pricing.

[4] "Submission: The Federal Carbon Pricing Backstop: Coments and Recommendations", *Clean Energy Canada* (June 2017): http://cleanenergycanada.org/work/submission-federal-carbon-pricing-backstop/.

[5] "Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA)", I*nternational Civil Aviation Organization:* https://www.icao.int/environmental-protection/Pages/market-based-measures.aspx.

Eliminate Subsidies for the Fossil Fuel Industry

By far the most egregious proposal in this document is the provision of additional tax breaks for the biggest polluters. Based on 2015 data, nearly 40 percent of Canada's emissions came from just 563 individual operations, mainly power plants, refineries and cement plants.[6] They should be contributing their fair share towards our global commitments to slash GHG emissions.[7] Instead, those big polluters located in provinces that have refused to create their own carbon tax will have a special rate based on a complex pricing mechanism using energy intensity and an average of industry emissions.

The OBPS exemption cannot be viewed as anything other than a subsidy. Since 2009, successive governments have promised to phase out fossil fuel subsidies, a goal supported by the International Energy Agency and the OECD's 2017 environmental performance review of Canada.[8] The OBPS could create additional inefficiencies in our economic system if the exemption is applied too broadly. Without a genuine threat of carbon leakage, a facility effectively receives a free allocation and has little incentive to reduce its emissions. The Canadian Chamber of Commerce warned that exempting certain sectors from carbon pricing will distort the economy. Rather, "sectors should bear similar tax treatment to encourage the best allocation and profitable use of resources in the economy."[9]

Carbon pricing is a way to correct for such market distortions. Failing to internalize externalities is the only way that our society has been willing to treat dumping carbon pollution into the atmosphere as if without cost. Placing a price on carbon is an important first step. Following through on the promise, not yet fulfilled, to eliminate fossil fuel subsidies is also essential. But taken together, eliminating market distortions and placing a price on carbon are not sufficient to meet the weak Harper target, much less the essential goal of holding global average temperature increase to no more than 1.5 ˚C - the Paris target.

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[6] "Overview of 2015 Reported Emissions", *Environment and Climate Change Canada* (April 2017): 4 https://www.ec.gc.ca/ges-ghg/82BA1E22-9653-45F1-8EC2-9BF8A2151555/ECCC_GHGRP_OverviewOfReported2015Emissions.pdf.
[7] On the issue of 'fair share,' Climate Action Tracker has calculated that even if the Pan-Canadian Framework is fully implemented and Canada's Nationally Determined Contribution met by 2030, the country's efforts would improve from a 'highly insufficient' rating to 'insufficient.' The new rating signifies commitments that are not stringent enough and will not hold warming below 2 degrees. "If all government targets were in this range, warming would reach over 2 degrees and up to 3 degrees." http://www.climateactiontracker.org/countries/canada.html
[8] "OECD Environmental Performance Reviews: Canada 2017", *OECD* (19 December 2017): http://www.oecd.org/canada/oecd-environmental-performance-reviews-canada-2017-9789264279612-en.htm.
[9] The Canadian Chamber of Commerce, "A Carbon Tax vs Cap-And-Trade", *Policy Brief: Economic Policy Series* (December 2008): 6.

Accounting for Trade Competitiveness and Carbon Leakage

Trade competitiveness and carbon leakage have been advanced as the arguments for an output-based pricing system. But if you look you will find that very few countries and jurisdictions are turning a blind eye to emissions. China, the world's largest emitter of greenhouse gases and a key trading partner with Canada, launched its carbon market last December. Even in the U.S., 30 states are refusing to waver from the Paris target in spite of a regression in federal policy.

If the government is determined to go through OBPS, then the allocations should be targeted and temporary, administered to industries that can demonstrate true competitiveness concerns due to carbon pricing only. Dave Sawyer and Seton Stiebert point out that only 5% of the national GDP stems from Emissions-Intensive-Trade Exposed sectors.[10] It should be made clear to these sectors that the exemptions will be phased out over time in exchange for absolute caps as Canada and the world approach regulatory equivalency. Sawyer and Stiebert caution that in the absence of detailed scientific study, industry has the information-advantage in negotiations over performance standards. They will fight hard for a weaker benchmark. I can only imagine that the government's ongoing review of emissions-intensive, trade-exposed sectors will serve to redress this information imbalance. I propose that in the interim, the government consider increasing the threshold of emissions to qualify for the OBPS from 50 kilotonnes CO_2 to 100 kilotonnes. This would match Alberta's model, the blueprint for the government's plan.

In anticipation of the regulatory framework for the OBPS, I ask along with Clean Energy Canada for a clear definition of "Best-in-Class" performance. This standard must be rigorous from the start, growing more stringent with every year, reviewed regularly and communicated transparently. I also recommend that consultation with specific sectors about their OBA's should begin with the assumption of global top-decile performance, lowering to top quartile where they can prove a valid risk of carbon leakage.

Allocations should be reviewed regularly. For 2020, we should engage in a comparison of international best practices for addressing competitiveness. On behalf of the Green Party of Canada, I advocate for a thorough study of border adjustments as a replacement to the OBPS. A study of flexible regulations issued by Simon Fraser University isalso be worth a closer look. They found that flexible regulations (e.g., average emissions sectoral caps and niche market regulations for emerging green industries) combined with a low carbon levy of \$40/tCO_2 could produce effects similar to an across-the-board carbon price that started at \$30 and rose to \$200 by 2030. Worth mentioning is that their model assumed a less stringent standard for industry and a 100Mt cap on the oil sands with no additional regulations. I highlight one of their conclusions:

[10] Dale Beugin, "Output-based pricing in the real world", *Canada's Ecofiscal Commission* (7 December 2017): https://ecofiscal.ca/2017/12/07/output-based-pricing-in-the-real-world/.

Elizabeth.May@parl.gc.ca

> While emissions pricing and flexible regulations might be considered substitutes in the early stage of the energy transition, the regulations create favorable conditions for a greater reliance on emissions pricing in later stages, as low- and zero-emission technologies and energy forms achieve economies of scale in production and greater consumer acceptance through the process of competition, innovation, adoption and market feedbacks. **Emissions pricing is easier when consumers have desirable market options for avoiding the tax or permit allowance cost**.[11]

In this way the study echoes the Canadian Chamber of Commerce, which argued that any carbon pricing program to effectively decrease GHG emissions depends on "the speed of developing, commercializing and deploying low and near-net-zero carbon energy technologies, as well as technologies that increase end-use energy efficiency."[12] Canada needs a well-coordinated effort to help fledgling clean energy industries achieve market penetration, a phenomenon that takes decades to have maximal impact. We can do far more than is being currently contemplated to de-carbonize the electricity sector and to pave the way for a fleet of zero-emissions vehicles. There is more that this administration can do to be a leader in this country, more that Canada can do to be a leader worldwide.

Conclusion

By the government's own accounting in its most recent filing with the UNFCCC, Canada is not on track to meet its 2030 target. The report says that it will make up for the anticipated 66 Mt gap through investment in transit, strategic R & D, and carbon storage. Missing here is the crucial commitment to drastically cutting supply-side measures – we must leave fossil fuels in the ground. Petronas LNG, for example, would have had 3 billion tonnes of CO_2 over thirty years had it not been cancelled.[13] The OECD report from December stressed the importance of Canada reducing its carbon intensity – the second highest among OECD countries – rapidly, especially by phasing out the oil sands. Key among its other recommendations: the timely implementation of the Pan-Canadian Framework, phasing out inefficient fossil fuel subsidies by 2025, revisiting levies on fuel-inefficient vehicles to incentivize low-emission products, and pressing ahead with the Canada-U.S. commitment to reducing methane from oil and gas sector, with or without the U.S.

The science tells us the window is closing – and fast – for holding global temperatures below a 1.5˚C increase. Canada must stop congratulating ourselves for measures heroic only when compared to the ten years under Harper. Canada must start doing what is all the more necessary after that awful decade to make our planet liveable for generations to come.

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[11] Mark Jaccard, Mikela Hein and Tiffany Vass, "Is Win-Win Possible? Can Canada's Government Achieve Its Paris…and Get Re-Elected?", *School of Resource and Environment Management,* Simon Fraser University (20 September 2016): 36. Emphasis mine.

[12] Ibid, 15.

[13] Marc Lee, "Canada cannot have it both ways on climate and fossil fuel expansion", *Policy note* (25 January 2017): http://www.policynote.ca/canada-cannot-have-it-both-ways-on-climate-and-fossil-fuel-expansion/

A lot of people around the world would like to see Canada be a real climate champion, and I believe this can happen. This is not the time to shy away from ambition. We can lead with our carbon pricing scheme – let us get tough on emissions targets, show we do not let polluters off easily, and set a real program to decarbonize our economy and save our planet.

Thank you for your consideration.

With thanks,

Elizabeth May, O.C.
Member of Parliament
Saanich – Gulf Islands
Leader of the Green Party of Canada