A GLOBAL AND SENSIBLE APPROACH FOR QUÉBEC TO REDUCE GHGs

The governments of Canada and Quebec have, in recent years, adopted several measures aimed at limiting emissions of greenhouse gas (GHG) in the hope of contributing to reducing global warming. Unfortunately, these measures will not achieve their goal and will cost Canadians dearly. In this document, the Conservative Party of Québec, concerned about sustainable economic development that considers real environmental constraints, proposes in this document an alternative that would work better at a lower cost.

PUTTING A PRICE ON CARBON—OR—REDUCING GREENHOUSE GAS EMISSIONS AND LAISSEZ-FAIRE

Our two levels of government have adopted different models but based on the same economic theory: tax carbon and less will be produced because consumers will consume less of it. Economists defend the theory behind these models because they argue that businesses and households make the best decisions to reduce their emissions and save on carbon costs better than governments who choose winners and losers by subsidizing “green” businesses and by disadvantaging those that are less effective. Therefore, regulations to eliminate coal, promote ethanol, or subsidize electric cars, among other policies, become unnecessary. Wherever the cost of reducing emissions is lower than the price of carbon, consumers and businesses will naturally adopt this technology without the need for further incentives.
CURRENT MEASURES

Justin Trudeau's federal government has chosen to regulate the price of carbon but not the amount of carbon emissions by imposing a carbon tax at a rate of $10 per tonne by 2018. The price will increase by $10 a year until it reaches $50 a tonne in 2022. The federal government allows provinces to opt out of this tax if they elect to use a carbon exchange that reduces their GHGs to match Canadian federal targets.

This is the choice that was made by Québec. Thus, the government of Philippe Couillard adopted a system called the “Système de plafonnement et d’échange de droits d’émission de gaz à effet de serre du Québec” (SPEDE) [the Québec System to cap and trade greenhouse gas emission allowances] that does not regulate the price of carbon but rather regulates the amount of carbon that can be issued. It sets annual GHG emission ceilings for certain regulated industries. As some sectors (agriculture and waste management) are excluded, others need to do more to make up the difference. Regulated industries must reduce their emissions or buy the “right” to emit GHGs through government auctions, by purchasing them from other participants on a carbon exchange or by purchasing offset credits. Industrial emitters exposed to foreign competition receive most of the emission units they need from the government, free of charge. As emission ceilings decrease, emission allowances become scarce and their price increases, encouraging businesses to innovate.

All money collected through auctions are paid to the Green Fund (Fonds vert) in Québec and are devoted to financing the numerous initiatives set forth in the 2013–2020 Climate Change Action Plan to reduce GHG emissions and to help society to adapt to the impacts of climate change.

In Québec, the imposed ceilings are equivalent to increasing the reduction targets to 45% in 2030 and to 96% in 2050 for the regulated sectors. That is quite a tall order, especially since companies facing international competition receive free emission allowances!
DOES IT WORK?

The answer seems to be “no.”

The Conference Board of Canada has concluded that even if the emission rights were to reach a cost of $200 per tonne by 2025, this would only result in a 1.5% reduction in GHG emissions outside the electricity generation sector. On the other hand, the introduction of a carbon tax will lead to higher prices in the economy as a whole, which will reduce the purchasing power of Canadians. Assuming a carbon tax of $80 per tonne in 2025, the average annual cost for a Canadian household would be about $2,000.

As for the SPEDE, we can see that neither California, nor Ontario, nor Québec is currently on track to achieve its objectives for 2030. In fact, Québec and Ontario have reduced their GHG emissions by only 9% between 1990 and 2015 and California has seen an increase of 0.7%. Forecasters estimate that the price of carbon in both Ontario and California will be in the range of $30 to $104 per ton in 2030, which will not be enough to change behaviour. Industries will continue to emit almost as much GHG but will pay a little more than they do today to have the right to do so. In fact, Québec Ministère des finances [Ministry of Finance] estimates that a carbon price of $93 in 2030 (it is currently about $20) would only achieve one fifth of the desired reduction. Concretely, a litre of gasoline would cost about 20 cents more than it does today ... i.e. not enough to change our habits as consumers. For its part, the Federal Environment and Climate Change Canada estimates that meeting Canadian targets would require a carbon price of $100 as of 2020 and between $200 and $300 by 2050. An examination of the price elasticity of transport demand and other key sectors shows that an even higher carbon price would be needed.

The theory outlined above does not work because it fails politically in two respects. On the one hand, its costs are too visible for voters. Regulations that reduce emissions have unmeasured “implied” carbon prices. These costs are hidden, and they deceive voters into believing they will not have to pay for them.

Second, the impacts of carbon pricing are simply too unpredictable. A carbon tax can’t achieve specific emission targets, as its impact can be mitigated by many other factors (e.g. strong economic growth or the collapse of energy prices).
Overall, emissions of GHGs in Canada have barely changed since 2005 (-2%) and have even increased slightly since 2010. If the federal government hopes to reduce GHG emissions in 2030 by 30% compared to 2005 levels, as it promised the UN in Paris, its carbon tax plan will not do the trick, unless prices are increased punitively.

Finally, carbon taxes have served almost everywhere as a pretext for raising the overall tax burden. Even where it had been promised that the tax would be revenue neutral, this was ultimately not the case. In British Columbia, rather than being used to reduce the tax burden, carbon tax revenues have been used, among other things, to give gifts to the film and video games industries. The imposition of a price on carbon has therefore led to an impoverishment of households, through higher prices on energy and transport, without compensation in the form of other lower taxes, and no measurable effect on the climate.

**MAKE IT EVEN MORE EXPENSIVE... BUT CAUSE CARBON LEAKAGE?**

Increasing the price of emissions, for example by imposing a very high tax if the price of carbon is too low, would not solve anything. The regulated businesses will pack up and go where regulations are less severe.

Because a carbon tax that really works will be high, this policy only makes sense if it is implemented everywhere. If not, it only leads to production and jobs offshoring, with no reduction in emissions. The announced withdrawal of the United States from the Paris Agreement highlights the risks of carbon “leakage” from aggressive Canadian GHG reduction policies that do not consider the integrated and interdependent nature of the Canadian and US economies. If you’re a GHG company and you’re looking at expanding into North America, are you going to pick the most expensive place to do so?

Carbon leakage can actually increase global emissions. Take the case of Canadian aluminum, which produces only 2 tonnes of carbon per tonne of aluminum produced, compared to US aluminum at 11 tonnes of carbon per tonne of aluminum produced. So, if a GHG reduction system in Canada results in a tonne of aluminum being produced in the United States rather than in Canada, global GHG
emissions to produce that tonne of aluminum will increase by 550%. Such a scenario can very well happen if the price of carbon is higher than what companies can pay. They will then offshore their activities to places where emissions regulations are less severe, reduce their operations, or even close their operations altogether. At that point, jobs will disappear and additional GHGs will be produced.

As mentioned above, to try to mitigate carbon leakage, each carbon pricing system (including Québec's) uses free GHG allowances for certain industries. Industries that consume a lot of energy and are exposed to international trade receive free emissions permits or a carbon tax rebate to enable them to compete. Obviously, since everyone prefers to avoid paying taxes, there is intense lobbying for a tax reduction based on formulas and complicated models for their own industry! Since the government determines who will receive these massive indirect subsidies, and how much they will receive, the process is inevitably politicized if not downright corrupt. For example, after meeting with industry representatives, the Trudeau government determined that four sectors in particular—cement, iron and steel, lime, and nitrogen fertilizer producers—face a highly competitive risk and announced in July 2018 that these sectors will therefore have their carbon emissions thresholds readjusted.

Carbon leakage is a real problem. Take the following real-life example: a natural gas project in Québec would have the potential to significantly reduce Canadian and global emissions by replacing higher-emission natural gas imports. In fact, according to some calculations, a single large liquefied natural gas (LNG) plant could reduce more emissions than a $200/tonne carbon tax across the Canadian economy! But the environmentalists who were presented with the project, while recognizing this reality, refused to endorse it because it would have increased GHG production in Québec! This result stems from the fact that according to the Kyoto Protocol, GHG reduction targets are aimed at reducing GHG production and not at reducing GHG consumption. A country or province that wants to meet the Kyoto targets will only look at GHG production in its territory, even though the overall effect may be to emit more GHGs. The Kyoto Protocol therefore has the unintended effect of undermining global efforts to reduce GHGs.
RISKS FOR CANADA

Canadian policymakers must address three key issues: the economic vulnerability of Canada's energy and trade, the lack of Canadian carbon leakage research, and the comparative carbon advantage of Canada in certain industries.

Economically, Canada is almost twice as vulnerable on energy and more than twice as vulnerable commercially compared to our major trading partner, the United States (which does not currently have carbon pricing). Seventy per cent of the Canadian economy depends on trade. In comparison, only 30% of the US economy depends on trade. In addition, Canada currently uses 14 megajoules (MJ) of energy to produce US $1 of the GDP, compared to only 9.3 MJ for the United States.

However, there are many examples in manufacturing, processing, and resources where Canada is a world leader in terms of environmental impact. In these industries, we could say that Canada enjoys a "comparative advantage in carbon." We mentioned, among other things, Québec aluminum and Canadian natural gas. The same would hold true for cryptocurrency mining and server farming, which consume significant amounts of power.

A GLOBAL APPROACH

The CPQ therefore proposes that Québec and Canada adopt a global approach to the problem rather than a strictly local one.

Here are some of the approaches that the CPQ proposes to implement for a sensible and realistic public policy on GHG emissions:

- Abolish the SPEDE and the Fonds vert (Green Fund) and use the money in the Green Fund to buy back the GHG allowances from the GHG emitters who paid for them. They could then be resold on the Carbon Exchange.

- Invest in independent, peer-reviewed economic studies of carbon leakage, with public consultation, to establish the comparative advantages of carbon for Canada and Québec. This is a prerequisite for good GHG emissions policy.

- Introduce targeted deregulation for Québec carbon-competitive industries to make them even more economically competitive. This will allow them to put more
carbon-intensive competitors out of business.

• Provide regulatory or tax incentives (such as accelerated depreciation) for low-carbon businesses to encourage investment in clean technologies and leverage Québec environmental advantage.

• Aggressively use the comprehensive compensation provisions of the Paris Agreement, allowing Canada to optimize its efforts given the nature of our economy and our well-established comparative advantages for the environment.

THINKING GLOBALLY WHILE ACTING LOCALLY

The CPQ also proposes sensible measures to locally reduce the energy footprint of Quebeckers.

For example, the CPQ would deregulate the taxi industry and encourage the emergence of self-driving cars, encourage carpooling, and improve the supply of transportation services on routes with little or no public transportation.

Another measure is to improve the efficiency and user-friendliness of public transit through increased competition and eliminating the monopoly of municipal public transit which prevents the free development of complementary and/or competitive services. Such private transit services would help meet specific needs, complement service offerings in underserved markets, and increase the quantity and variety of services, thereby increasing transit ridership. In addition, healthy competition could become a factor in encouraging transit companies to better control their costs, thereby enabling them to increase their offerings without additional costs.

Another measure deals with the 5¢ and 10¢ bottle recycling deposits which were created at a time when the selective collection of household waste (the blue bin where recyclable materials are deposited) did not exist. Now that the selective collection of household waste covers almost the entire territory of Québec, it would be more environmentally friendly to drop these bottles in our recycling bins. Thus, the transportation of recyclable materials to sorting centres would be consolidated, which would reduce its emissions of GHGs. Finally, since the deposit is no longer necessary, it would be abolished, which will simplify the lives of merchants who sell products in containers that are currently recycled. That is why
the CPQ would abolish the deposit on all bottles and cans and encourage Quebecers to deposit them in their recycling bins.

Lastly, the CPQ would abolish the QST on the sale of used goods to reduce the ecological footprint of manufacturing new goods.

CONCLUSION

Emissions are a global problem, not just a Canadian or Québec problem. With a common-sense approach, Canada and Québec can achieve a triple dividend of economic growth, reducing energy poverty, and reducing global emissions.

Guy Morissette,
President, Policy Committee
Conservative Party of Québec

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