



# ONTARIO CAP AND TRADE FACTSHEET

## Trade-Offs & Consequences: Critical Considerations for Ontario

### Cap and Trade is Good for Ontario's Economy



- **In 2017, the first year of Ontario's cap and trade program, the province added over 175,000 jobs<sup>1</sup>**
  - This increase represents a 2.5% growth in jobs, double the growth rate in two previous years<sup>2</sup>
- **Cap and trade has no impact on electricity prices in Ontario**
  - The Ontario electricity system has a low carbon footprint, limiting its exposure to a carbon price
  - There are rebates available to low-income households<sup>3</sup>
- **In 2017, the first year of Ontario's cap and trade program, the province's:**
  - Real GDP rose by 2.7%
  - Nominal GDP rose by 4.5%<sup>4</sup>
- **To date, Ontario has raised \$2.4 billion from carbon allowance auctions<sup>5,6</sup>**
  - This revenue is legislated to be re-invested in Ontario businesses and households
  - Aim is to reduce GHG emissions and help Ontarians transition to a low-carbon economy<sup>7</sup>
- **\$2 billion has been allocated to fund projects for Ontarians via the [Green Ontario Fund \(GreenON\)](#)<sup>8</sup>**

### Why Cap and Trade Works for Ontario Business & Consumers



- Cap and trade creates incentives to reduce GHG emissions at **least cost**<sup>9</sup>
- Ontario businesses have access to **low-cost, flexible compliance** and abatement options through:
  - Trading or purchasing carbon allowances and offsets
  - Investing in low-carbon technology
- Combined, these market approaches allow **creation of maximum value** for participants and Ontario
- **Businesses that face competition from non-Ontario suppliers are protected through:**
  - Receiving free allowances to address competitiveness concerns
  - Reacting to price signals and incentives to cost-effectively reduce emissions
  - Building resilience to international drivers (e.g. Border Carbon Adjustments)
- Cap and trade offers a natural safety valve to business to manage economic cycles
- Emissions not subject to external competition, such as those from transportation, must buy allowances
  - Auction revenue is used to help consumers and business transition to higher carbon costs
- **Trading allows for critical cross-border climate cooperation and linkage opportunities**
  - Broader markets mean broader access to lower-cost abatement options
- **Cap and Trade systems have a proven track record that have successfully tackled:** acid rain<sup>10</sup>; atmospheric ozone depletion<sup>11</sup>; and smog/leaded gasoline<sup>12</sup>

### De-Linking Cap and Trade: The Reality



- **Ontario withdrawing from cap and trade would be a complicated, lengthy and costly process**
- If Ontario were to withdraw, the province must endeavour to:
  1. Give Quebec and California 12 months notice to exit the cap and trade [linkage agreement](#); and
  2. Withdraw at the end of the compliance period, ending in 2020<sup>13</sup>
- **If Ontario Government shifts out of cap and trade, the resulting policy uncertainty will:**
  - Undermine flows of investment within and to Ontario
  - Undermine the current carbon price signal
  - Neuter the cost-effectiveness and pragmatic approach to climate policy in the province<sup>14</sup>
- Dismantling the program will likely **result in the Federal Government's fixed and scaling carbon price**<sup>15</sup>



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### Ontario's Alternative: Federal Backstop (High, Fixed Carbon Price)

- Hybrid **system** includes both a carbon levy (tax) on fuels and an output-based pricing system (OBPS)
- OBPS system requires some industries to meet stringent efficiency benchmarks or pay the carbon tax
- Federal carbon tax **starts at \$20/tCO<sub>2</sub>e in 2019 – scaling to \$50/tCO<sub>2</sub>e by 2022**<sup>16</sup>
  - Ontario's current cost per tonne for is \$18.44<sup>17</sup>
- Alternative federal approach is **neither the least-cost approach nor the business-friendly policy option**
- Federal Government has left options open regarding how Ottawa distributes carbon tax revenue
  - Ottawa must return the revenue to the provinces
  - But Ottawa does not have to channel through provincial governments
- **Alternative federal approach sees fewer options to generate value for Ontario businesses**

### Financial Consequences: Real Costs to Ontario & Consumers



- Ontario Government would have to compensate companies for allowance purchases
  - Compensation would be an expensive and complicated process.
  - Ontario Government has **sold allowances worth billions of dollars** to companies based in Ontario, Quebec and California to be used through 2021<sup>18</sup>
- **In the absence of provincial carbon pricing, Ontario could potentially lose nearly half a billion** from the Federal Government's Low Carbon Economy Leadership Fund<sup>19</sup>
- If Ontario cancels cap and trade, the Federal Government's higher cost carbon pricing backstop (see above) would increase energy prices for Ontario's residents and businesses<sup>20</sup>
- **Removing cap and trade would have significant market impacts**, particularly with California involved
  - Canadian and US companies could sue Ontario Government over competitiveness and lost revenue
- Pushback on backstop would trigger a, likely unsuccessful<sup>21</sup>, **protracted constitutional battle with Ottawa**
- Imposition of carbon tax is more disruptive to Ontario's economy, primarily due to higher carbon price<sup>22</sup>

CAP AND TRADE IS NOT A TAX	
CAP AND TRADE	CARBON TAX
• Puts a <b>direct cap on emissions</b>	• Puts <b>direct price on emissions</b>
• Harnesses market efficiencies to set price	• Government sets the carbon price
• Protects industry competitiveness via allocation	• GHG reductions are neither mandated nor guaranteed
• Firms can trade compliance units based on ability to abate and economically-rational decisions	• No flexible compliance options to incent business to comply at least-cost

### Additional Reading & Key Resources:



- Government of Ontario, [Cap and Trade in Ontario](#)
- Ecofiscal Commission, [Clearing the air: How carbon pricing works](#)
- Clean Economy Alliance, [Progress Report on Ontario's Cap-and-Trade Program](#)
- CCPA, [No Bad Option: Comparing the economic impacts of Ontario carbon pricing scenarios](#)
- Ontario Low Carbon Business Coalition (OLCBC), [Consequences of Changing Policy Direction](#)
- Enviroeconomics, [A better trade-off analysis of Ontario Carbon Pricing choices](#)
- IETA, [Cap and Trade Basics](#) and [Benefits for Emissions Trading 101](#)

## References

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- <sup>10</sup> Environmental Protection Agency (2015) 2015 Program Progress – Cross-State Air Pollution Rule and Acid Rain Program <https://www3.epa.gov/airmarkets/progress/reports/index.html>
- <sup>11</sup> Centre for Climate and Energy Solutions (2018) The Montreal Protocol on Substances that Deplete the Ozone Layer. <https://www.c2es.org/content/the-montreal-protocol/>
- <sup>12</sup> Stavins, R. N., Schmalensee, R. (2015) Lessons Learned from Three Decades of Experience with Cap-and-Trade. <http://www.rff.org/files/document/file/RFF-DP-15-51.pdf>
- <sup>13</sup> Government of Ontario. (2017). Agreement on the harmonization and integration of cap and trade programs for reducing greenhouse gas. <https://news.ontario.ca/opo/en/2017/09/agreement-on-the-harmonization-and-integration-of-cap-and-trade-programs-for-reducing-greenhouse-gas.html>
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