California Dreamin'

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California has become utopia for Canadian Climate policy-makers in their aspirations to achieve GHG reduction targets. Quebec and Ontario have aligned their Cap & Trade systems with the golden state, and are conducting joint permit auctions (Ontario will link its permit auctions in 2018). California's Low Carbon Fuels Standard (LCFS) is a model that has found traction in BC and within current federal discussions on a Clean Fuel Standard.

Last month, Federal Environment & Climate Change Minister Catherine McKenna spent a week in California, getting the lay of the land, rubbing shoulders with the Silicon Valley business community and extolling the virtues of California's climate leadership. The visit is another instance of Canadian politicians' seeming infatuation with California climate policy that goes back more than 10 years to when then Ontario Premier Dalton McGuinty and California Governor Arnold Schwarzenegger met in Toronto.

Tethering our climate policy to California's threatens Canadian competitiveness. When it comes to Canadian business, the economic connections between Canada and California aren't all that significant. Quebec's two-way trade with California is less than 5% of its overall two-way trade with the United States. For Ontario, the numbers are higher – closer to 10%. That's a long way from the three jurisdictions working "as an economic unit" as described by Ontario Environment and Climate Change Minister Glen Murray, in December 2016.

Canadian manufacturers compete and trade most with businesses in states such as Michigan, New York, Ohio, Pennsylvania and the New England states. Burdening Canadian businesses with carbon costs aligned with those of California erodes their competitiveness in both domestic and significant US export markets. For energy intensive trade-exposed Canadian refineries that compete with refineries located in the Gulf Coast states of Texas, Louisiana, and Mississippi, the carbon costs of 'made in California' climate policies make it harder to compete and remain economically viable, and make them vulnerable to closure. It could get much uglier. Proposed California legislation significantly 'ups the ante' with a new post-2020 Cap & Trade regime that will cost businesses much more, if enacted.

The irony for Canadian policy-makers is that closing Canadian refineries will contribute to their own GHG reduction targets, but it will do nothing to reduce global emissions. In fact, it may increase them. Canadian produced fuels come from some of the cleanest refineries in the world. Replacing 'made in Canada' supply with fuel imports from refineries that produce more emissions is a perverse 'not in my backyard' approach that doesn't fight climate change.

We may already be seeing the impacts of eroding Canadian refinery competitiveness. Over the past decade our refined product trade balance with the US has been declining. It's a 'lumpy' curve, but the trend is undeniable. Our refined product trade surplus in 2016 is half what it was in 2007. Two Canadian refineries closed during the same period.

Aligning our climate policy with California needs a serious rethink. California dreamin' may be great on a winter's day, but the economic risks to Canadian businesses and jobs are real.