Federal government 'Carbon price backstop' puts Canada's refining infrastructure at risk

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The federal government's proposed carbon pricing 'backstop' requires large emitters like refiners to reduce their emissions by 30 percent from their sector average, or pay the federally-mandated carbon price on excess emissions, starting in January 2019. For now, refiners in provinces that already have a carbon pricing system in place - Quebec, Ontario, Alberta and British Columbia – are exempt. Not so for refiners in other provinces like New Brunswick and Saskatchewan. A review in 2020 will determine the longer term application of the backstop to refiners currently exempt.

What does a 30 percent reduction mean for Canadian refiners? It's an emissions performance level that no refiner in the world has been able to achieve – by a wide margin! Comprehensive and credible global data shows that when compared with their peers in the developed world, Canadian refiners' emissions performance is in the middle of the pack. Some refiners are better than average, some are even in the top 10 percent of performers in the world, and some are worse than average, with work underway to improve. The data also shows that the difference between top and poor performance is not large – emissions performance is a tight range.

That's where the 30 percent reduction becomes problematic – it requires a performance level that is literally 'off the chart' - in territory that is the stuff of dreams, not reality. Canadian refiners will have no option other than to pay the escalating carbon price ($50 per tonne in 2022) on emissions that they and no other refiner in the world would be able to eliminate. Perversely, paying this level of carbon tax will divert investment away from process and technology improvements that would reduce emissions!

Then again, this scheme might actually achieve emissions reductions in Canada – by closing refineries! Refineries are energy intensive, trade exposed businesses. Simply put, they use a lot of energy to produce commodities (gasoline, diesel, jet fuel) that freely trade in global markets. The cost implications of the excessive carbon pricing backstop proposal will have serious negative impacts on Canadian refiners' ability to successfully compete, both here at home and in export markets, making them vulnerable to closure.

Canadian refineries' principal competitors are not subject to carbon pricing regimes. This creates a real risk of carbon leakage, where carbon costs in one jurisdiction cause energy intensive, trade exposed businesses to lose out to competitors in another jurisdiction where carbon costs either don't exist or are lower than in their current location. The result is economic loss in the carbon pricing jurisdiction, with no net reduction in global emissions. The emissions (and economic activity and jobs) have just 'leaked' from one jurisdiction to another.

The federal 'off the chart' backstop proposal is a certain recipe for carbon leakage in Canada's refining sector, a key element of Canada's Critical Infrastructure that provides a reliable, secure and resilient fuel supply essential to economic and national security, and the prosperity, health and safety of our citizens.

Closing Canadian refineries will make us more reliant on fuel imports, eroding the direct economic benefits from our refining sector and undermining security of the fuel supply. And, it would only divert emissions from closed Canadian refineries to refineries elsewhere, doing nothing to reduce global emissions.

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