Carbon pricing and competitiveness – the big picture

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In case anyone didn't notice, the context for climate policy and carbon pricing in Canada has just changed dramatically. The election of Donald Trump, together with a supportive Republican controlled Congress is a game changer for Canada. The North American climate policy partnership forged by Prime Minister Trudeau and President Obama is ending. The prospect for a renewed climate partnership with the incoming Trump administration is uncertain, to say the least.

The competitiveness implications for energy intensive, trade exposed business sectors like petroleum refining are significant. Going it alone and imposing carbon price costs on Canadian businesses, when their US direct competitors face no comparable carbon costs, puts Canadian businesses and jobs at risk. For Canada, it's a recipe for importing our fuels and exporting Canada's refining jobs. If it's cheaper to do business elsewhere, that's where business will go.

Emissions don't respect borders

Let's not forget that Climate Change is a global problem, not a local one. The US is the world's second largest emitter, responsible for 16 per cent of global emissions. By comparison Canada is a bit player, accounting for only 1.7 per cent of global emissions.

That's not to say Canada's refining sector opposes carbon pricing. In fact, we support transparent, predictable, economy-wide carbon pricing mechanisms as the most cost-effective emissions reduction strategy. However, a lopsided approach in which Canada is independently forging ahead, blind to the economic and competitiveness implications is dangerous.

A 2015 report by Canada's EcoFiscal Commission sheds light on the issue of energy intensive trade exposed business sectors, and the need to consider competiveness implications in shaping and implementing carbon pricing mechanisms. EcoFiscal identified petroleum refining as one of a handful of business sectors acutely exposed to pressures on competitiveness caused by carbon pricing policies.

Some will argue that state governments in the US will fill the climate policy void left by the incoming Trump Administration. There is likely some truth to this. But it won't be even across the board, and certainly won't be the case in US Gulf Coast states like Texas and Louisiana, where the majority of US refineries (Canadian refineries' competitors) are located.

Canada's refining sector already faces significant competitiveness pressures. Fuel imports, primarily from the US, are rising; our exports (primarily destined to the US) are declining. Three Canadian refineries have succumbed to competitiveness pressures and closed over the past decade, eliminating thousands of good, high paying jobs.

Quebec and Ontario are now developing post-2020 frameworks for their existing Cap & Trade frameworks. Alberta is in the process of developing the next iteration of its carbon pricing policy. The federal government has already served notice to the provinces of its intentions to impose a pan-Canadian carbon price of $50/tonne by 2022. Failure to consider the competitiveness impacts of misaligned Canada/US climate policy and carbon pricing will put additional Canadian refineries and their employees at risk. Putting our fuel supply in someone else's hands also creates security of supply risks.

The game changing election of Donald Trump to President of the United States and the competitiveness implications for Canadian carbon pricing policies should be at the top of the agenda when First Ministers meet in December.

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