Carbon Levy: An Urgency to Competitive Balance for Industry and Future Sustainability

Issue

The Province of Alberta implemented the first phase of the "carbon levy" as part of the new Climate Leadership Plan, January 1, 2017. It is agreed that there is an imperative for the province and the country to demonstrate environmental responsibility. The carbon levy is assessed at $20.00 / tonne in 2017 and $30.00 / tonne in 2018.[1] The levy is to help diversify our energy industry and create new jobs, and according to the provincial government is already improving access to new markets and better prices for our traditional energy products. i.e. Kinder Morgan pipeline approval(s). The cost of doing business and the cost to consumers are on the rise (i.e. vehicle fuel, household heating and product costs as business passes the increased costs off to consumers). Those costs, according to the province will be offset by consumer credits and new business rebate programs for infrastructure upgrades for industry (not much evidence of new business rebate programs to date).

The provincial government has identified Emissions-Intensive and Trade-Exposed (EITE) industries as mining, smelting and refining, pulp and paper, iron and steel, cement, lime and gypsum as well as chemicals and fertilizers. The province has executed their due diligence through the Eco fiscal Commission 2015; Provincial Carbon Pricing and Competitiveness Pressures; Guideline for business and policy makers, the Climate Leadership Report, the Climate Leadership Plan and in identifying that EITE will require some measures to remain competitive. The identification and implementation of competitive measures is of significant interest to industry. Industry, in Alberta, have long recognized the necessity of reducing environmental impact through carbon emissions, transportation and other designate footprints, and have consistently applied new research in effort to minimize environmental impact as examples: Trans Alta Coal Transition[2]; Canada's Oil Sands[3].

Background

In order to help business transition in a carbon price economy there are three major competitive factors to consider. The first is Alberta's current plan lacks multi-jurisdictional carbon trading and until carbon pricing and regulatory policy equivalencies with other jurisdictions are achieved Alberta industry is disadvantaged. The Climate Leadership Report to the Minister identifies the need for a competitive diversified lower-carbon economy which "protects the competitiveness of key industries" and lists the following:

c) improve the mechanism by which trade exposed industries are protected to ensure their competitiveness while encouraging and rewarding top performance,

[1] https://www.alberta.ca/climate-carbon-pricing.aspx
[2] http://www.transalta.com/about-us/coal-transition/FAQ-new-coal
[3] http://www.canadasoilsands.ca/en/explore-topics/ghg-emissions

e) avoid the transfer of wealth outside of Alberta

"Over the longer term, consistency of the carbon price across provinces is desirable for two reasons. First, such consistency improves overall cost-effectiveness by ensuring incentives exist for realizing all potential low-cost emissions reductions, whatever their location. Second, a common price avoids policy-induced challenges of interprovincial competitiveness. When policy is equally stringent across provinces, all firms face a level playing field."

The second competitive factor is that industry needs the ability to compete with imports of product from outside of the country where there are no carbon pricing solutions. Alberta will be paying one of the highest costs for carbon anywhere in North America, yet all manufactured products that are imported are not subject to valuation of their carbon footprint. Where and how competitive products to Canadian produced products are manufactured impact price. How the product is transported to the import destination has a carbon footprint. There is no valuation of greenhouse gas emissions on imported manufactured competitive products and yet transportation has been identified as a major source of emissions. As an example; the B.C. government implemented a price on carbon and between 2008 and 2014 saw the rise of imports in cement products from 6% to 42%, with no valuation of greenhouse gas emission on those competitive product imports.

"Border adjustments could level the playing field. Border adjustments can ensure that domestic firms are not disadvantaged relative to competitors in jurisdictions with less stringent policies. Tariffs could be applied, for example, to imports from other jurisdictions based on the carbon content of the imported products. Given Canada's constitutional division of power, such border adjustments could not be implemented by a single province, but would require involvement by the federal government. In practice, border adjustments could invite reciprocating taxes from other jurisdictions or challenges under international trade law (McAusland & Najjar, 2014). Even if successfully implemented, they could be costly for Canada in terms of reduced trade (NRTEE, 2009). For specific emissions that fall under provincial jurisdiction, some form of border adjustment could nonetheless be practical. Imports of electricity into Quebec, for example, are subject to that province's cap-and-trade system, thus ensuring that coal-fired electricity generation outside the province is not advantaged relative to cleaner generation within Quebec. If Hydro Quebec imports such electricity from other provinces or U.S. states, it must have sufficient permits to account for the associated GHG emissions. The measure is constitutionally possible because of pre-existing provincial regulatory authority over imported electricity (Parlar et al., 2012)." More information: Carbon Tax Centre

The third competitive factor is waste management. Research identifies potential low carbon fuels that are currently disposed in landfills. Complementary provincial and municipal waste management policies and regulation need to be implemented to prevent landfill disposal of materials that can be potential low carbon fuels. As an example, wood waste and other bio waste is consistently disposed into land fill, most often without any monetary consequence. An overall regulatory framework is necessary that will allow EITE industry the opportunity to get access to and then use lower carbon fuels.

Industry will be accountable to greenhouse gas emission, will lessen their emissions through new technology and take the necessary steps and expense to do what is best for the environment. Industry requires government to ensure that the economic environment is competitive during this costly transition, so that they remain viable, continue to employ Albertans and provide the manufactured products "Made in Canada" for Canadians.

The Alberta Chambers of Commerce recommends the Government of Alberta:

1. Ensure that the carbon output based allocation system is supported by a mechanism that relieves emissions intensive, trade exposed industries of carbon costs until such a time as competing jurisdictions implement comparable pricing with solutions and that relief applied now.