



Cap-and-Trade Regulations

Ministry of the Environment and Climate Change

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Introduction

CUPE Ontario believes that the climate crisis is among humanity's most urgent priorities. We represent many workers whose jobs have an environmental component, such as in municipal water work, compost, recycling and waste collection, energy generation and distribution, and other jobs. And the majority of our members work is low-carbon emitting work. Caring for seniors in long-term care, or children in childcare, or in schools, or instructing at universities – there are so many examples of public sector jobs organized by CUPE that are “green jobs” because they are low-carbon emitting jobs. Our 250,000 members help contribute to a greener workplace and world. This public sector work is integral to sustaining and enriching Canadian communities.

We are strong advocates for environmental justice, which must include guaranteed access for everyone to clean air, water, soil, and energy. Environmental justice also requires that those who reap the most benefit from our economy, and who are responsible for the environmental damage done in the process of production for profit, must be the ones who bear primary responsibility for paying for environmental protection and cleanup.

Clear and decisive action on global warming and climate change must be taken immediately. Doing nothing is not an option. Pricing carbon through a cap-and-trade system is only one component of a fully developed strategy. In addition, any serious action plan on the environment will also need to include a strong regulatory regime, public investment in, and design of infrastructure projects, public ownership and democratic control over energy production and distribution, and a public stake in research and development. The implementation of an environmental action plan must also be based on the principle of a just transition. That is, it must be based on a strategy to ensure that workers whose jobs are affected by the transition to a low carbon economy can also transition into good, well-paying jobs in the low carbon economy.

Just Transition

Environmental sustainability must include strong protections against global warming and climate change. CUPE Ontario signed the Leap Manifesto¹ precisely because we are committed to a transformational approach to an environmentally sustainable society. In order to make the transition fully sustainable for people, any strategy used to move to a low-carbon economy must be based on a “just transition”.

A just transition must provide protection for workers who will be exiting employment in high-carbon sectors of the economy, including job creation strategies that are premised on high-wages and high levels of job security. Revenues generated through the cap-and-trade system, administered through the Greenhouse Gas Reduction Account, must be dedicated to ensuring a just transition for workers.

A just transition necessarily includes protection for workers in jobs that will be eliminated as we move to a low-carbon economy. But a just transition also must be premised on the protection of public services and public sector jobs. A fundamental component of a just transition will require the government to increase funding to all broader public sector institutions to offset the increased costs that will be incurred as a result of the cap-and-trade system. Failure to fully fund the costs faced by public sector

¹ <https://leapmanifesto.org/en/the-leap-manifesto/>

institutions will lead to service cuts, job losses, and a further expansion of precarious employment practices. This would be inconsistent with a just transition, and it would be contrary to the goals of delivering high quality public services.

The Price Is Wrong

Setting the price of carbon at \$17/tonne will not make a significant difference in the investment patterns of businesses, and will therefore not result in the desired reduction in carbon emissions. This is particularly true in light of the low price of oil. Cheap oil is an incentive to continue current usage rates of fossil fuels in production. An increased cost of \$17/tonne for greenhouse gases will not create the conditions for a significant improvement.

A recent study by Trade Unions for Energy Democracy, citing evidence provided by the World Bank, found that a global average price of carbon would need to be US\$80 to US\$120 per ton in order to change behaviour sufficiently to result in the kinds of investment changes that would keep global warming to 2°C.² Since the government's target is to limit global warming to 1.5°C above pre-industrial temperatures, it is likely that the higher price would be the more appropriate target. A slightly more conservative estimate provided for the UK by the government's independent Committee on Climate Change, estimated that the price on carbon should be £30 - £70 per tonne³ (or approximately C\$55 - C\$130 per tonne), in order to meet targets that are similar to the ones set by the government of Ontario.

The government's decision to allocate free emission allowances to many of the largest polluters further complicates the issue of price. The European experience with cap-and-trade demonstrated that the issuance of free allowances led to a depression of the price of carbon, which "all but extinguished the price signal"⁴, which is to say that it virtually negated any incentive to reduce carbon emissions.

The flip side of this is, however, the risk of "carbon leakage", or losing investment in high carbon industries to jurisdictions that do not price carbon. Industries in high carbon sectors of the economy will demand free allowances in order to transition to the new cap-and-trade system. Yet failure to properly price carbon will make the system ineffective. This is the contradiction of the cap-and-trade system, or any market-based solution to a market-based problem. The only way to minimize this contradiction is to augment the cap-and-trade system with other measures.

That said, there is a strong principle at play here: We all must be part of the solution. If everyday folks are going to have to pay more to heat their homes and drive their vehicles, then corporate polluters should not get off completely free. This goes against a fundamental fairness test and will make support for environmental measures harder to solidify, quite rightly.

² Trade Unions for Energy Democracy, Working Paper No. 6: Carbon Markets After Paris", March 2016.

³ <http://www.theguardian.com/environment/2012/jul/16/carbon-price-tax-cap>

⁴ Trade Unions for Energy Democracy, Working Paper No. 6.

The Need for Strong Public Sector Solutions

Bill 172, An Act respecting greenhouse gas, indicates that the government will prepare a climate change action plan. According to the Act, “the Government of Ontario will pursue complementary actions to support and promote the transition to a low-carbon economy.” The complimentary actions must be designed in a way that includes a robust role for the public sector, oriented towards the public good and not private profit.

Cap-and-trade must be augmented with strong regulation to promote environmental protection. Regulations put positive obligations on businesses to meet democratically established targets for reductions in greenhouse gas emissions. Market mechanisms like cap-and-trade are ultimately voluntary. As long as someone can afford to pay the price, and is willing to pay it, they can continue to emit carbon. While incentivising measures to cut down on GHGs can help, such measures can only be partial solutions. A comprehensive regulatory regime should be implemented after consultations with unions, environmental organizations, and other progressive movements.

Investment in infrastructure has been identified as a key component in the strategy for developing a low-carbon economy. The most efficient and effective way for infrastructure projects to be implemented is through direct government financing. Under no circumstances should money be wasted on Public Private Partnerships (P3s), or any form of Alternative Financing and Procurement (AFP). As we regularly remind the government, the Auditor General has demonstrated conclusively that P3s cost more than traditional forms of direct government financing.⁵ Researchers at the University of Calgary have also found that P3s do not result in savings, frequently cost more than public sector design and build projects. Furthermore, the P3 model frequently hides costs from the public⁶ making this, and other AFP models contrary to the principles of transparency that underpin functioning democracies.

Investments in public transit must also be a central component to the environmental action plan. Well-designed public transit systems, which themselves can be built with low-carbon technology, will help eliminate the reliance on single occupant vehicles. Building good public transit systems should also include sufficient funding to allow for these systems to keep fares low, ideally with a near-zero cost to riders. In the absence of sufficient funding to facilitate access to public transit for all, regardless of their income, even the best systems will be underutilized. Investments should not only focus on large cities like Toronto and Hamilton. Certainly large metropolises have great need for this funding. But smaller municipalities will also need funding to build up their systems, and promote ridership.

Energy production and distribution will also need to be central to the environmental action plan. Alternative sources of energy, including wind and solar, can help reduce carbon emissions. A transition to alternative energy sources will not happen without significant infusion of public funds. Since the public will be, and should be funding these projects, they should also be held as public assets, and controlled democratically. Ideally these investments should be owned centrally, at the provincial level, so that everyone in the province can benefit from the revenue. Ownership by municipalities might also

⁵ Office of the Auditor General, Annual Report 2014.

⁶ Anthony E. Boardman, Matti Siemiatycki and Aidan R. Vining, “The Theory and Evidence Concerning Public-Private Partnerships in Canada and Elsewhere”, *The School of Public Policy Research Papers*, volume 9, issue 12, March 2016.

be an acceptable model, as long as there is strict regulation preventing the privatization of assets, and clearly defined democratic processes outlining how all residents will control the utilities.

Public expenditure on research and development should not be used as subsidies to businesses. Instead, any public money spent on R&D should come with an ownership stake, so that the people of Ontario can reap a dividend from their investment. This will also give the public some input on the uses of any new technology that is developed.

Conclusion

As we noted in our earlier submission to the Ministry of Environment and Climate Change, CUPE supports putting a price on carbon, as long as the price is right, and that carbon pricing is only one component of a comprehensive strategy for transitioning to a low carbon economy. Such a strategy must include a strong role for the public sector, including public ownership and democratic control of the assets that will facilitate this transition. It is problematic that the fully developed environmental action plan has not been tabled at the same time as the cap-and-trade system. Without knowing all of the details of the action plan it is impossible to know whether the proposed cap-and-trade system will be effective.