

Briefing Note:

Fair and Equitable Carbon Pricing: Comments on Ontario's Cap and Trade Program

2 February 2016

Introduction

Ontarians are already experiencing the economic, social, and environmental impacts of climate change.¹ The burdens of climate change are fundamentally unjust: vulnerable communities that are responsible for the least carbon emissions are faced with the most severe effects of climate change. It is essential that Ontario achieve rapid and deep emissions reductions, however, carbon pricing programs are known to be regressive in that they unevenly affect vulnerable, low-income communities. Ontario's carbon pricing regime must protect low-income communities from the double burden of disproportionate climate impacts and regressive carbon pricing.

In implementing a carbon market, Ontario must ensure that the transition to a low-carbon society is just and equitable. The cap and trade policy must be based on the polluter pays principle in order to allocate responsibility to entities that control the sources of emission. The cap and trade legislation must also provide explicit support for low-income and vulnerable communities in this transition.

The MOECC indicated that it considers the issue of the use of proceeds from the cap and trade program not to be strictly within the scope of the program design. The design of the cap and trade program, however, will determine whether Ontario will have the resources to assist low-income communities with carbon reduction, or whether it will impose the double burden of climate change and regressive carbon pricing impacts on those most in need.

The Canadian Environmental Law Association requests a meeting to discuss MOECC's plan for addressing the needs of vulnerable communities.

Climate change disproportionately affects vulnerable communities

Members of low-income communities contribute the least to GHG emissions, but they are faced with the most serious impacts.² Ontario's Climate Change Strategy provides an illustrative

¹ Environmental Commissioner of Ontario, *Feeling the Heat: Greenhouse Gas Progress Report 2015*, (Toronto: Office of the Environmental Commissioner of Ontario, July 2015), at 5-9.

² Marc Lee, *Fair and Effective Carbon Pricing: Lessons from BC* (Vancouver: Canadian Centre for Policy Alternatives, February 2011) [*Fair and Effective Carbon Pricing*] Online: CCPA <https://www.policyalternatives.ca/sites/default/files/uploads/publications/BC%20Office/2011/02/CCPABC_Fair_Effective_Carbon_FULL_2.pdf>.

example: of the 10 impacts that Ontarians can expect to see as climate change worsens, all of them represent pressures that will disproportionately affect seniors and those with pre-existing health problems, remote and First Nations communities, low-income individuals, and those marginalized within their communities.³

When Ontario experiences more frequent and severe extreme weather events, low-income individuals and remote communities are most vulnerable to infrastructure disruptions. The rising price of food caused by disruptions to the global production/supply chain will impact already food insecure low-income communities the hardest. Changes to plant and animal species ranges and the surge in invasive species will disproportionately affect First Nations traditional and subsistence food sources.

The regressive effects of carbon pricing

Ontario has to implement a cap and trade program that will be aggressive and effective in order to meet its carbon reduction targets, ensuring the price on carbon is sufficiently high. Any carbon pricing, however, will have a regressive impact on low-income communities as it will constitute a disproportionate share of their income.

One of the ways industry will react to carbon pricing is by passing the cost increase on to consumers. Low-income individuals are most affected by a higher price in consumer goods, since tight budgets do not allow for a buffer to absorb the cost. Vulnerable rural communities may not have access to cheaper alternatives.

Ontario's decision to not allocate free allowances for emissions from electricity generation is a positive step towards lowering GHG emissions. Unfortunately, already vulnerable communities will be hit the hardest by the subsequent increase in electricity rates. Low-income households often experience "energy poverty," meaning their utility costs affect their ability to pay for basic necessities like food and medicine.⁴ Low-income households are also twice as likely as the average household to heat their home with electricity, and are more likely to use electricity for hot water heating.⁵

Vulnerable communities' low potential to reduce emissions

Funding for household programs like renewable energy and efficiency retrofits does not effectively benefit the most vulnerable members of society who do not own their homes. Low-income households already spend a disproportionate amount of income on housing, energy, and basic necessities, leaving little resources for capital investments. It is also more difficult for low-

³ Ministry of Environment and Climate Change, *Ontario's Climate Change Strategy*, online: Government of Ontario <<https://www.ontario.ca/page/climate-change-strategy>>, at 9.

⁴ "Working to End Energy Poverty in Ontario: A Tool Kit," Low-Income Energy Network, online: <http://www.lowincomeenergy.ca/energy-assistance/toolkit/>, at 10.

⁵ *Ibid.*, at 11. Low-income households that heat with electricity account for 30.2%, compared to 14.7% for the average income households. 34.8% of low-income households heat water using electricity, compared to 25.3% for the average income household in Ontario.

income individuals to reduce their carbon emission, since they already tend to produce fewer emissions compared to those in a higher income bracket.⁶

Ontario should embed policies such as a direct low-income credit into the cap and trade program legislation. Direct investment in the ability of vulnerable communities to reduce their GHG emissions will yield emissions reductions as well as avoid their further marginalization.

Free allowances exacerbate inequality

The question of who will bear the cost of carbon pricing may affect Ontario's ability to meet its targets. Designing the cap and trade program in a way that implements the polluter pays principle means those responsible for the most GHG emissions will have the market incentive to reduce them.

MOECC's proposal to allocate free allowances to industries at an assistance factor of 100% undermines the principles of equity and polluter pays. Free allowances are allocated to industries in order to mitigate the issue of leakage, however, there is little evidence to support the worry that much of Ontario's industry and business sector will have to cease operations or move abroad in response to carbon pricing.⁷

Allocating free allowances at a factor of 100% regardless of the actual trade exposure of each facility amounts to a program-wide subsidy for large emitters. This not only reduces Ontario's ability to meet its emissions reduction targets, but also decreases revenue that could be used to fund assistance programs for vulnerable communities.

Conclusion

The cap and trade program, as proposed, does not adequately protect marginalized Ontarians. Their disproportionately high burden of climate change is twofold: they experience the negative impacts of a changing climate much more severely, and they are most affected by the pass-through costs of carbon pricing. Ontario's cap and trade proposal is an opportunity to tackle greenhouse gas emissions while also lifting underprivileged communities out of a cycle of poverty.

We respectfully request an opportunity to discuss the above-noted concerns at your earliest convenience.

Yours truly,

⁶ *Fair and Effective Carbon Pricing*, at 16.

⁷ Chris Bastille, Benjamin Dachis and Nic Rivers, "Pricing Greenhouse Gas Emissions: Impact on Canada's Competitiveness" (February 2009) 280 CD Howe Institute Commentary 1, online: CD Howe Institute <https://www.cdhowe.org/pdf/commentary_280.pdf>. See also Daniel A Farber, "Pollution Markets and Social Equity: Analyzing the Fairness of Cap and Trade" (2012) 39:1 Ecology LQ, online: Berkeley Law at <http://scholarship.law.berkeley.edu/facpubs/2047>; Elizabeth Beale et al., "Provincial Carbon pricing and Competitiveness Pressures: Guidelines for Business and Policymakers" (Canada's Ecofiscal Commission: 2015) online: Canada's Ecofiscal Commission <<http://ecofiscal.ca/wp-content/uploads/2015/11/Ecofiscal-Commission-Carbon-Pricing-Competitiveness-Report-November-2015.pdf>>.



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