RNAO Registered Nurses' Association of Ontario
L'Association des infirmières et infirmiers autorisés de l'Ontario

Bill 172: Climate Change Mitigation and Low-Carbon Economy Act

RNAO Submission to the Standing Committee on General Government

April 6, 2016

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Executive Summary

RNAO welcomes the introduction of legislation to move forward carbon pricing in Ontario. There is a broad consensus among economists that pricing carbon is an essential component of a strategy for reducing greenhouse gas (GHG) emissions. There is also a broad consensus among climate scientists that climate change is happening, that it is primarily due to human emissions of GHGs, and that humans must substantially reduce their GHG emissions if they wish to avoid catastrophic climate change.

Bill 172 would enshrine in legislation Ontario's commitment to substantial reductions in GHG emissions below 1990 levels: 15 per cent by 2020; 37 per cent by 2037; and 80 per cent by 2050. It would also empower cabinet to make those targets more aggressive. And it would generate substantial amounts of revenue that could be used to fund complementary carbon reduction activities, such as enhanced transit and active transportation,[1] and greater efficiency in heating and cooling buildings.

RNAO encourages this government to move forward with this bill, subject to a set of changes that would strengthen the impact of the legislation:

a. set the cap at a level that would deliver the target GHG reductions on time or early
b. commit in legislation to setting interim targets that will guide cap-setting policy
c. base the 2017 cap on 2015 emissions, so that emissions don't rise between those two years
d. limit the use of offsets and ensure they are real, additional, verifiable, validated, enforceable and permanent
e. only link to other cap-and-trade markets when that maintains Ontario standards, and don't count out-of-province permit purchases towards Ontario targets
f. do not distribute free allowances, and if this happens in the first compliance period, ensure a clear and reasonable phase-out timeline and ensure that any free allowances are targeted, transparent and temporary
g. to level the playing field for Ontario firms, pursue all options for border carbon adjustments
h. to maximize the effectiveness of the fund and to sustain political support for the GHG reduction effort, manage the revenue in a very transparent fashion with strong public oversight
i. ensure that indigenous communities are treated as full partners in implementation of the cap-and-trade program
j. do not fund nuclear power projects with revenues from the cap-and-trade program

The Registered Nurses' Association of Ontario (RNAO) is the professional association representing registered nurses (RN), nurse practitioners (NP) and nursing students in all settings and roles across Ontario. We are the strong and credible voice leading the nursing profession to influence and promote healthy public policy. RNAO's dual mandate is to speak out on nursing and health issues, and that includes environmental determinants of health. We are pleased to offer our submission on Bill 172 to the Standing Committee on General Government and appreciate the opportunity to provide feedback.

A. The Time Has Come

Climate change policy

With this legislation, Ontario is delivering on its promise to price carbon. We welcome this important step, and commend the government for moving forward. We are pleased to provide improvements to the proposed legislation, which will strengthen its ability to mitigate climate change and thus, its impact on health.

RNAO has long supported carbon pricing in actions and such documents as our 2009 Bill 185 submission[2] and our 2015 submissions on *Ontario's Climate Change Discussion Paper* [3] and on *Cap and Trade Program Design Options.*[4] The government recognizes the centrality of pricing carbon in meeting Ontario's greenhouse gas (GHG) reduction targets of 15 per cent below 1990 levels by 2020, 37 per cent by 2030[5] and 80 per cent by 2050.[6] RNAO is pleased that Bill 172 enshrines these targets into legislation (Section 6(1)). RNAO is also pleased that cabinet is given the authority to make those targets more aggressive (Section 6(2)). As this submission will point out, it would be prudent to reduce GHG emissions more rapidly.

This bill is one of four climate-critical policies announced by Ontario that also include: actions in key sectors; support for science, research and technology; and promotion of climate resilience and risk management.[7] While the cap-and-trade program ought to be calibrated to fully deliver the targeted reductions, the complementary policies can help to fill some of the gaps left by cap and trade.

The urgency

Globally, we are facing drastic climate change, and action is imperative. The 2017 timing of program implementation shows awareness of the urgency -- an awareness that is explicit in the *Design Options* document. As RNAO noted in a previous submission, "climate change is very real -- happening today, not in a distant future -- and is a result of human activity that increases the amount of greenhouse gases in the air. This activity has radically changed the composition of the atmosphere. The carbon dioxide concentrations have risen steadily since the start of the industrial era, when they were about 280 ppm.[8] Recent estimates have put concentrations well over 400 ppm (404.02 as of February 2016).[9] That is a 43 per cent increase. The jump is unprecedented and the levels of carbon in the air far exceed those at any time in the last 800,000 years; the previous high over that period was 300 ppm about 330,000 years ago.[10] This is alarming. When other greenhouse gases besides CO_2 are factored in, the increase is even more worrisome -- about 60 per cent from the start of the industrial era by 2012 alone[11]." [12] With great regularity, new research identifies plausible mechanisms whereby current GHG emissions trends could quickly trigger climate catastrophes, such as rapidly rising sea levels due to collapse of the West Antarctic Ice Sheet.[13] [14]

RNAO members are concerned about climate change because of its serious environmental and health implications. Already, we are seeing severe dislocation in places like the Horn of Africa, in part due to weather disturbances (e.g., drought).Climate change also affects the health of Ontarians by contributing to extreme weather events, killer heat waves, poor air quality, and vector-, rodent-, food- and water-borne diseases. By fighting global warming, we are not merely protecting the environment, we are protecting the health of Ontarians. And we would be contributing to environmental justice, because the most vulnerable populations are the poorest in both Canada and developing countries. These are the people who did the least to cause global warming and yet, they suffer disproportionately.

The Paris Agreement

The Paris Agreement (December 2015) on climate change is a step forward -- one that acknowledges the gap between current mitigation pledges and the effort required to limit the increase in the global average temperature to 2 ºC above pre-industrial levels. It calls on nations to pursue a goal of limiting the rise to1.5 ºC, which would require a much greater effort than the 2 ºC limit.[15] Commitments must be greatly strengthened because even if the current ones are met, the increase by the end of the century would be in the range of 3º C to 4º C.[16] The province can lead by example, as it has with its coal plant closures. And, of course, Ontario would enjoy improved air quality. For example, the number of smog advisory days in Ontario dropped from 53 in 2005 to zero in 2014, [17] coincident with the closure of those coal plants.[18]

Carbon pricing

Carbon pricing is the most essential element of a climate change program. It serves several functions:

- Signals consumers to make less use of products that are more carbon-intensive
- Signals producers to use inputs that are less carbon-intensive
- Provides incentives to investors and innovators to find and/or develop methods for reducing carbon emissions
- Provides an important source of revenue to help solve the problems created by dirty energy

As RNAO has stated in the past, a carbon tax would have been preferable for a variety of reasons: [19]

- It is simpler and quicker to set up, as it can use the existing tax system
- It is cheaper to administer
- It is not subject to the kind of price volatility experienced by the EU Emissions Trading System, for example.[20]
- It is easier to cover more types of emissions
- It would yield more revenue, to the extent that cap-and-trade permits are not fully auctioned
- It would reduce the risk of gaming, cheating and fraud under cap-and-trade, particularly if permits are not fully auctioned[21]
- It can be easily phased in through escalating carbon tax rates
- It would not act as a barrier to entry for new firms, whereas cap-and-trade would, to the extent that cap-and-trade permits are given to existing firms
- Cap and trade could also perversely reward bigger polluters with more free permits

The cap-and-trade model

A well-designed cap-and-trade system can minimize these limitations. The principles of good design include:

- Effectiveness:
    - The cap must be sufficiently aggressive to allow the province to meet or exceed its emissions targets. To support the global objective of limiting temperature rise to 1.5 ºC, Ontario should go beyond those targets.
        - There are grounds for concern that the current Ontario cap proposal is insufficiently aggressive, as the resulting permit price could be only $17 /tonne.[22] That figure is out of step with the existing price in British Columbia of $30/tonne[23] and the proposed Alberta January 2018 price of $30/tonne.[24] Indeed, a coalition of green BC businesses has called on BC to end its freeze on the carbon tax and to raise it to $40/tonne by 2018.[25] And the price would be well below the $50/tonne that the Green Budget Coalition

recommends for 2020.[26] This price is based on modeling a path to substantial decarbonization in Canada by Bataille et al.[27] The latter report recommends further annual $10/tonne increments between 2020 and 2050, in constant 2014 dollars.

  - Coverage of sectors and emitters must be as comprehensive as feasible.
- Complementarity with other greenhouse gas reduction policies and allowing for linkages with other jurisdictions.
- Auction of permits rather than free distribution to emitters.
- Support for emission-intensive, trade-sensitive emitters should be very targeted, and weigh all competitiveness considerations.
  - For example, the current exchange rate of the Canadian dollar is US$0.77,[28] which is remains about 6 per cent below its "fair" or purchasing power parity (PPP) value; the dollar has been much lower in recent months. The PPP value of the Canadian dollar is fairly stable over time and was estimated at US$0.82 for 2015 by the OECD.[29] That compares with about a 2.5 per cent carbon permit cost facing very carbon-intensive industries, if they had to pay that fee.[30] Given that firms still in Ontario had to survive a Canadian dollar that was overvalued by at least 20 per cent most of the time between 2011 and 2013, it does not seem likely that any of them would consider leaving the province over the minimal cost impact of a carbon tax.
  - For another example, Canada's universal health insurance system gives Canadian employers a cost advantage over American employers who have to pay much more to give their employees equivalent health coverage. That advantage was estimated to be US$4/worker/hour in the auto sector.[31]
- Respect for the principles of fairness and environmental justice, including designing a transfer mechanism to support vulnerable Ontarians to ensure they are not made worse off by carbon pricing.
  - The system must level the playing field as much as possible. Firms inside and outside the system must be treated the same. Comprehensive coverage would help yield in-province fairness, while border adjustments would improve fairness for Ontario firms when competing with firms from other jurisdictions (e.g., impose taxes on imports equivalent to the carbon prices that Ontario firms face).
- Predictability is important: cap reductions should be phased in on a publicized schedule.
- Regular reporting on how revenues are spent would help ensure transparency and accountability.
- Results should be reported quickly and in a visible way.

- Offsets are permits issued for certain actions taken elsewhere to reduce emissions. Examples could include green energy projects and measures to reduce emissions from garbage dumps. If used, they must be very limited and controlled.

B. RNAO's Response to Bill 172

A Strong Preamble

The preamble opens with the important acknowledgment: "Human-induced climate change is real and impacts are being experienced around the globe." It goes on to reference the global community's agreement in Paris to aim to limit global warming to 1.5 ºC, and makes the case for strong action to mitigate climate change. This is very helpful.

Cap Setting

RNAO applauds the introduction of carbon pricing, but urges that it be implemented in a way that Ontario has a high degree of certainty of meeting or exceeding the GHG reduction targets laid out in the Bill 172, and also supports rather than undermines Canada's GHG reduction efforts. For example, a cap that is set so high that the resulting carbon price is well below the carbon tax in other provinces will weaken the effort in those provinces. As another example, if Ontario joins in carbon markets in which carbon pricing is intended to have a small effect on GHG emission, as it is in California,[32] then the carbon price will be depressed and Ontario emitters will not have as much incentive to reduce emissions; instead, they may simply buy cheap out-of-province permits and continue emissions unabated. That would not help Ontario to reach its targets. It is important that Ontario not count out-of-province purchases of permits as reductions towards its GHG targets.

The government's cap proposal as laid out in earlier documents needs to be more aggressive.[33] It is set to reach the 2020 target, but not to exceed it. Given the Paris Agreement to limit GHG emissions to a level that would result in warming of only 1.5 ºC, it makes sense that Ontario should do its part by making more aggressive commitments. Also, the proposal would set the 2017 cap about 2.5 MT above 2015 emission levels, which would delay the reduction in greenhouse gases. We ask why the cap could not be set at 2015 levels, and why Ontario could not set more ambitious targets under cap-and-trade?

First, we applaud the government for putting Ontario's GHG reduction targets into the bill, and for empowering cabinet to make those targets more ambitious.

Recognizing the importance of carbon pricing and the urgency of proceeding, we advise moving ahead with the bill:

> **Recommendation 1:** Approve Bill 172, subject to adoption of the following recommendations.

As per the discussion above on Ontario's carbon pricing ambition, we echo the Canadian Environmental Law Association (CELA) on the maximum number of emission allowances.[34]

> **Recommendation 2:** Amend section 29(2) as follows:
> The regulations <u>shall</u> prescribe the maximum number of Ontario emission allowances that may be created during a period, and the maximum number shall be determined to <u>support GHG reduction efforts across Canada, and</u> to enable Ontario to meet the targets established under section 6 for the reduction of greenhouse gas emissions <u>or more stringent greenhouse gas emission reduction targets as prescribed, by considering the following factors</u>:
>
> (i) Canada's efforts and obligations to reduce GHGs;
>
> (ii) The extent to which emitters are not covered -- for example by not being in a covered sector or by falling below a participation threshold;
>
> (iii) Evaluation of Ontario's other environmental policies to reduce GHG emissions, including initiatives funded by the Greenhouse Gas Reduction Account;
>
> (iv) The amount of offsets used by capped emitters to meet their compliance obligations;
>
> (v) The amount of early reduction credits used by capped emitters to meet their compliance obligations;
>
> (vi) Any new mandatory participants in the cap and trade program that are not yet required to comply with the Act;
>
> (vii) The stringency of emissions reduction targets in other jurisdictions, where Ontario has entered into agreements with those jurisdictions under section 73;
>
> (viii) The number of excess allowances available in other jurisdictions, where Ontario has entered into agreements with those jurisdictions under section 73; and
>
> (ix) Any other factor that will impact on Ontario's ability to meet its section 6 GHG reduction targets.

Interim Targets

RNAO also urges that cabinet be required to establish interim GHG reduction targets, rather than having the option to do so:

> **Recommendation 3:** Amend subsection 6(3) as follows: "The Lieutenant Governor in Council shall by regulation establish interim targets for the reduction of greenhouse gas emissions."

RNAO urges that the initial and subsequent caps be set more aggressively, to better assure that Ontario can easily meet or exceed its GHG reduction commitments.

> **Recommendation 4:** Set the initial 2017 cap at 2015 emission levels and set more aggressive cap reduction targets than those implied in Ontario's GHG emission targets, so that Ontario can more readily reach its 2030 and 2050 targets.

RNAO urges great caution in the use of offsets, which present considerable challenges and costs in verification. The further afield the offset, the greater the risk.

> **Recommendation 5:** Limit the use of offsets to no more than the proposed 8 per cent, and strictly enforce proposed requirements that they be "real, additional, verifiable, validated, enforceable and permanent."

Cap-and-Trade Linking to Other Jurisdictions

There are potential gains to be made from linking to Quebec and California, in terms of supporting the pricing of carbon and contributing to a momentum to extend it to other jurisdictions. The question is whether linkage raises or lowers standards. Linking to a program that issues too many permits would not only cost the government foregone revenue -- it would lower the overall achievement of GHG reduction. RNAO advises linking only when Ontario is confident that it will lead to an upward harmonization of policies. As noted above, California relies minimally on cap-and-trade to deliver GHG reductions, and that will imply a suppressed emission price. Yet California is one of Ontario's potential cap-and-trade partners.

Recommendation 6: Only link to cap-and-trade programs in jurisdictions when the result does not lower Ontario standards or emission prices.

Recommendation 7: Do not count out-of-province purchases of GHG emission permits towards Ontario's reduction targets.

Free Allowances

We acknowledge the concern about possible leakages in trade-exposed sectors and how businesses could be affected by the costs of cap-and-trade. At the same time, it is important to maintain inclusiveness and the principle of polluter-pay. As the Ecofiscal Commission advises "the scope for free allocations should be narrow, rules-based, and transitional."[35] The government proposal has a framework by which emission intensive and trade exposed sectors are identified. We are concerned that the threshold for high trade exposure (over 19 per cent) is quite low and would include most sectors producing tradable goods. The proposed assistance factor in the first compliance period (2017-2020) is 100 per cent for all industrial and institutional sectors. That is neither targeted nor temporary. The Ecofiscal Commission has concluded that no more than 2 per cent of the Ontario economy could be labeled as more exposed, even at $90/tonne of GHG equivalents (Ontario emitters are likely to face much lower prices. For example, California cap-and-trade prices have settled much lower -- at US$12.61/tonne range as of March 30, 2016).[36] As noted above, any slight competitive disadvantage of carbon pricing (about 2.5 per cent for emission-intensive producers) must be weighed against the fact that Canadian emitters benefit from a dollar that is at least 6 per cent undervalued. Already, 17 of Ontario's 21 manufacturing sectors experienced export gains over 9 per cent in 2015,[37] and it is difficult to imagine an over-valued dollar any time soon.

It is far better solution to arrange for border adjustments that level the playing field for Ontario producers. These border adjustments would add the cost of carbon to imported goods and similarly assist Ontario exporters. After all, the goal of carbon pricing is to correct prices for omitted externalities -- the damage done by the release of GHGs and other associate pollutants. Without the correct price signal, economic agents choose paths that are bad for society. When we give away permits, we are distorting the price signal.

Again, we echo CELA's recommendations on free permits:

Recommendation 8: Ontario should not distribute free allowances.

> **Recommendation 9:** If the Ontario government distributes free allowances to industrial emitters in the first compliance period:
> a) amend subsection 30(2) to include a clear and reasonable phase-out timeline; and
> b) ensure that any free allowances are targeted, transparent, and temporary.

Border Adjustments

As noted above, we urge the government to address any competition concerns through border adjustments, rather than let other jurisdictions force Ontario to lower the bar through their failure to price carbon:

> **Recommendation 10:** Pursue all options for border carbon adjustments to level the playing field for Ontario firms.

Greenhouse Gas Reduction Account (GGRA)

Ideally, the cap-and-trade program would by itself get Ontario to its GHG reduction targets, and we urge that the cap be set so that Ontario's targets may be met or exceeded. Nevertheless, complementary action will help accelerate Ontario's GHG reduction program and make it easier to meet or beat targets. Ontario's cap-and-trade program will generate substantial sums of money -- $478 million in 2016-17 and $1.8-$1.9 billion annually in following years.[38] It is important that this fund is used for the purposes of reducing GHG emissions and to mitigate adverse impacts on marginalized communities; that means funding new GHG reductions and not actions that have already been taken or have already been committed to. California's Greenhouse Gas Reduction Fund is mandated to allocate at least 25 per cent of funding to projects benefiting disadvantaged communities.[39]

To maximize the effectiveness of the fund and to sustain political support for the GHG reduction effort, the fund must be managed in a very transparent fashion with strong public oversight. Funds generated should go into a special purpose account, as is the case for the existing GGRA in the Environmental Protection Act. Section 68 in Bill 172 would establish a GGRA that is not clearly a special purposes account, and which could be used for purposes beyond those we have specified above.

> **Recommendation 11:** Maintain the GGRA as a special purpose account.

Recommendation 12: Amend Subsection 68(2) as follows:[40]
68(2)(2): To directly fund new and additional initiatives, or to expand existing initiatives, described in Schedule 1 to this Act, that are likely to reduce greenhouse gas emissions, ensuring that at least 25% of the GGRA revenue will be used to benefit low-income and vulnerable communities.

To limit claims against the GGRA for costs, which might be associated with administering, enforcing and implementing the Act, restrict government claims to direct expenses.

Recommendation 13: Remove "or indirectly" from Paragraphs 68(2)(1) and 68(2)(3).[41]

Recommendation 14 makes similar recommendations to Recommendation 12, applied to Schedule 1.

Recommendation 14: Amend Subsection 1(1) of Schedule 1 as follows: Any of the following types of new, additional initiatives, or the expansion of existing initiatives, may be funded, in whole or in part, from the Greenhouse Gas Reduction Account in accordance with section 68 of the Act, but only if the particular initiative is likely to reduce greenhouse gas emissions, including initiatives, which are likely to assist low-income and vulnerable communities in reducing greenhouse gas emissions, or if the initiative is likely to address the disproportionate impact of the cap and trade program on low-income and vulnerable communities.
1a(i) Any initiatives which are likely to address the disproportionate impact of the cap and trade program on low-income and vulnerable communities.
(ii) Any initiatives which are likely to assist low-income and vulnerable communities with the reduction of greenhouse gas.[42]

First Nations, Inuit and Métis

First Nations, Inuit and Métis communities have a strong interest in climate change, as they are disproportionately impacted by it and because many of their communities will disproportionately bear the costs of a cap-and-trade program. It is important that they are full partners in this exercise. Bill 172 does acknowledge the importance of traditional ecological knowledge in Section 7(2), but the language could be strengthened to support that partnership.

Recommendation 15: Amend the preamble to Bill 172 as follows:

First Nation, Inuit and Métis communities have extensive experience and knowledge relating to environment protection in Ontario. The government of Ontario shall incorporate the traditional ecological knowledge and other information provided by First Nation, Inuit and Métis communities in its strategic level planning and in its development of specific actions.

Recommendation 16: Amend Section 7 to require strategic level collaboration with First Nation, Inuit and Métis communities on the government of Ontario's climate change action plans.

Recommendation 17: Amend Subsection 7(2) as follows:
If a First Nation, Inuit or Métis community provides the minister with any traditional ecological knowledge or other information relevant to preparing climate change action plans or specific actions under Bill 172, the minister shall incorporate that traditional ecological knowledge or other information into its decisions.

Nuclear Power

Some people advocate for spending on new nuclear power as an alternative to methods that directly or indirectly emit more GHGs. RNAO has a clean energy position that opposes the refurbishment of existing nuclear power plants and the construction of new nuclear plants, on the grounds of cost, safety and disposal of nuclear waste.[43] Bill 172 should be amended to ensure that the proceeds of cap and trade are not used for the purposes of nuclear power.

Recommendation 18: Amend Paragraph 1(1) (1) of Schedule 1 to ensure that no nuclear power projects, including nuclear refurbishments, can be funded by GGRA funds.[44]

Conclusion

Carbon pricing is the most important step in the government's program to meet Ontario's GHG reduction targets. RNAO welcomes this very significant measure, which is being implemented in a timely fashion. It will send the appropriate signal to carbon users, and it will help to fund the complementary activities necessary to meet or exceed the targets. It will also help to assist those most adversely affected by the transition to a low-carbon economy. We emphasize the urgency of great ambition, as the trend in emissions is alarming and the health consequences of failure are unimaginably dire. Ontario has the ability and obligation to lead. Accordingly, we implore the government to go beyond its current commitments, and adopt RNAO's recommendations.

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