

April 5, 2017

Premier Wynne
Legislative Building
Queen's Park
Toronto, ON M7A 1A1



Premier Wynne,

Ontario has a lot to offer our business community: a strong quality of life, a highly educated workforce, and a stable operating environment. However, to achieve our growth objectives by attracting new investment and talent, we must continually evaluate our competitive position relative to other jurisdictions. The Ontario Chamber of Commerce (OCC) and our network of 135 local chambers of commerce and boards of trade have heard growing concerns regarding the competitive landscape in the province. I am writing you today to share that message and to emphasize the importance of action to support the business community in Budget 2017.

With the launch of the cap and trade program, these concerns have become particularly acute.

Increased input costs imposed on the private sector mean that Ontario risks losing out on jobs and investment, and risks an economically and environmentally damaging shift in production to jurisdictions that are not taking action to reduce their greenhouse gas (GHG) emissions. In all policy decisions, the provincial government must consider how we can prevent exporting jobs while importing pollution.

More must be done to help manage uncertainty and ensure businesses are not permanently challenged in a transition to lower carbon intensity economic growth. The OCC supports your government's decision to provide free allowances to certain energy intensive, trade-exposed emitters for the first four years of the program. It is also important to consider the steps already taken to position Ontario as an environmental leader, such as the elimination of coal generation and the increased use of emissions-free sources of energy. These actions have incurred a cost that is being realized by some Ontario businesses via higher electricity prices.

The changing political landscape should also serve as a consideration. While some American states currently operate under various carbon pricing schemes, many of Ontario's strongest competitors for business investment are not pursuing similar programs. This year, we have already heard examples of businesses in the manufacturing and agri-food sectors relocating or considering relocation/expansion to the U.S. in response to increased energy costs.

Significant uncertainty also remains within the business community regarding the details of the Climate Change Action Plan (CCAP). Businesses have little insight into what the design of plan will be after 2020, and are unsure whether free allowances will be rolled over into future compliance periods. Poor auction performance in the Western Climate Initiative (WCI), as well as legal challenges and legislative uncertainty in California, have added to concerns. Questions also remain regarding the use of cap and trade revenue, especially now that the first auction has had a robust showing. We understand that programs via the CCAP will be forthcoming, but few details exist regarding what types of businesses or sectors will be able to access them. As recently as this month we learned that there was just \$40 million available for Stream 1 of the Target GHG Program, for which the government has qualified requests that totalled over \$120 million. **More action must be taken. Businesses are feeling the costs of cap and trade today and are looking for support to mitigate those costs today.**

Within the cap and trade system, there are mechanisms through which the government can assist the business community. We have identified four priority actions:

- 1. Prioritize the allocation of cap and trade revenue for businesses, in addition to other efforts to offset the cost of cap and trade.** Making the process to access resources as quickly as possible will be important, especially for smaller businesses who have little time or money to dedicate to program applications. Businesses, especially small businesses, will need other measures to offset the overall increase in the cost of doing business in the province. Government can ensure this by making representatives available in order to answer questions and provide updates about funding opportunities. As revenue begins to flow from industry this year via the quarterly auction process, returning that revenue to the business community through a diversity of programs that reflect the unique challenges of various sectors and regions needs to be a priority.
- 2. Prioritize innovation funding.** Many Ontario businesses have already taken steps to reduce their carbon footprint. Achieving further reductions could be difficult and will often require the implementation of new technologies. The CCAP has allocated between \$140 million and \$235 million until 2020 towards innovation and the commercialization of low-carbon technologies. The business community should be engaged to help define a pathway for disseminating this funding in an effective manner.
- 3. Create greater post-2020 design certainty.** Post-2020 certainty is important for businesses looking to make long-term investments in Ontario. We understand that discussions have begun on this subject and urge the government to consider widening the scope and establish a clear, public timeline for this process. This is particularly critical for trade exposed sectors. A plan to combat carbon leakage is necessary.
- 4. Monitor and respond to regional impacts.** Certain regions are more exposed to the effects of carbon-pricing than others. In order to ensure the strategic allocation of cap and trade revenues, government should conduct a regional analysis of the impacts of cap and trade. This analysis should consider the carbon footprint of local economies, the severity of the impact of carbon pricing, and the capacity of economies to respond.

It is essential that government begin to publicly evaluate the cumulative impact of current and incoming policies on the overall competitiveness of Ontario business. In particular, emphasis should be placed on how small businesses are being impacted by this cumulative effect. For example, as outlined in the OCC's recent submission to the 2017 Long-Term Energy Plan (LTEP), the LTEP must integrate the objectives and directives outlined in the CCAP to ensure a full accounting of the impacts of those policies on long-term energy planning in Ontario. Will the government's commitment in Budget 2016 to ensure that cap and trade will not increase electricity costs for commercial and industrial consumers be reflected in government action? Viewed together, the true impact of many policies with small, incremental costs would become clearer.

The OCC would be happy to discuss these concerns with you at your earliest convenience.

Sincerely,



Graham Henderson
Chair of the Board
Ontario Chamber of Commerce