

May 12, 2016

Hon. Glen Murray
Minister's Office
Ministry of Environment and Climate Change
77 Wellesley St W
Ferguson Block, 11th Floor
Toronto ON M7A 2T5



Minister Murray,

Thank you for your continued engagement with Ontario businesses as you move ahead with the implementation of Ontario's cap and trade system. As outlined in our 2015 report, *Clean Profits*, and subsequent submissions, the Ontario Chamber of Commerce (OCC) and the province's business community understands the need to address climate change. If designed effectively, the cap and trade system presents significant economic and environmental opportunities for the province.

Recently, the government introduced and received comments on *Bill 172, Climate Change Mitigation and Low-carbon Economy Act, 2016* and its associated regulations. We hope the business community's feedback is taken into consideration as the government moves ahead with the implementation of its cap and trade system.

The OCC was encouraged by the greater level of specificity contained in *Bill 172* surrounding cap and trade revenue. The creation of a separate Greenhouse Gas Reduction Account to hold these funds, more clarity around authorized expenditures from this account, and annual reporting requirements are all positive steps towards transparency.

Despite these positive developments our members remain concerned with a number of aspects of the cap and trade system. We hope you will be able to provide greater clarity on these issues.

1) What will be the economic impact of the cap and trade system?

In *Clean Profits*, we urged the government to conduct and publicly release the results of an economic analysis of the cap and trade system, including sector-level impacts. This information is essential to help businesses and consumers understand how they will be impacted by a price on carbon. In particular, sector-level information is important to inform non-covered businesses that will not be directly subject to the carbon price, as the specific impacts of cap and trade on their business can be more difficult to determine.

We have not received any information regarding the projected economic impact of the cap and trade system in Ontario. We strongly urge the government to release the results of any analysis it may have undertaken as soon as possible, so that Ontario businesses can best prepare for the implementation of the new system.

2) How will cap and trade revenue be invested and administered?

While *Bill 172* sets the parameters whereby cap and trade revenue can be spent, questions remain about how these funds will actually be used, and how the Greenhouse Gas Reduction Account will be administered.

The OCC continues to emphasize the need for cap and trade revenue to be reinvested into the business community. Directing cap and trade revenue towards efforts that facilitate businesses' transition to a lower carbon economy, such as investments in low-carbon processes, technology, and other capital, will be essential for Ontario to meet the government's ambitious greenhouse gas reduction targets. Providing transitional funding will also be critical to help prevent carbon leakage, or the relocation of operations to jurisdictions with no greenhouse gas reduction policies.

Currently, the mechanisms by which funds from the account will be distributed are unclear. Who will be eligible to receive this money? How could a business with a plan to reduce its carbon footprint access these funds? Which principles and criteria will be applied to evaluate and compare project proposals? How long will the application process take?

If this revenue is to help Ontario drive emissions reductions, then it must be available from the beginning. To provide for a wide range of solutions to reduce greenhouse gas emissions, access to this revenue should not be overly restrictive. We urge the government to finalize and communicate the details of revenue administration and distribution in advance of the launch of the cap and trade system, so that businesses are prepared to take advantage of this opportunity to reduce their carbon footprint quickly. Government should work with the business community to ensure that the mechanisms to access these funds are simple, fair, and transparent.

3) How, and when, will offsets be available?

Bill 172 sets out the requirements for the registration of offsets, but contains few other details. MOECC notes in the proposed regulation document that a separate offsets regulation will be proposed later in 2016.

Offset credits could play an important role in increasing the overall effectiveness of Ontario's cap and trade system. Allowing covered entities to purchase offsets provides them with another vehicle to comply with their obligations under cap and trade, and can often be a lower-cost alternative. By allowing non-covered sectors to sell credits, an offset market can also provide an economic incentive for non-covered businesses to reduce their emissions. This expands the greenhouse gas reducing potential of the cap and trade system.

To play a role in cap and trade compliance, however, both covered entities and entities looking to sell offsets need much more information. How can offset projects be verified and registered? How can businesses buy and sell credits?

As such, we request that the government to finalize the details of offsets regulations and associated protocols as quickly as possible to coincide with the launch of the cap and trade system. If Ontario is to support a viable offsets market and drive further emissions reductions, credits must be available for covered entities to purchase soon after implementation. The OCC and our members would welcome an opportunity to work with you directly in the coming weeks.

4) What will the cap and trade system look like after 2020?

Certainty is essential to effective business planning and risk mitigation. Businesses in Ontario have little insight into what the design of Ontario's cap and trade system will be after 2020. While we understand that the government is focused on getting the cap and trade system ready for a 2017 launch, post-2020 design elements are important considerations for businesses looking to make long-term investments in the province. In particular, many covered entities are wondering whether some free allowances will be carried over into future compliance periods. This has been done in other jurisdictions to maintain competitiveness and reduce carbon leakage.

We urge the government to, where possible, increase the clarity of system design beyond the first compliance period.

Overall, we continue to hear that businesses are feeling uncertain about the incoming cap and trade system and unprepared for its full implementation next year. To produce the most effective environmental and economic outcomes, it is important that government takes the time get the design of cap and trade right. This was underscored at the OCC's recent Annual General Meeting, where the Ontario Chamber Network voted to support the delay of cap and trade implementation to allow government and the business community more time to prepare. As such, we encourage the government to consider delaying the implementation of the cap and trade system until 2018.

The OCC and its membership understand the need to address climate change and will continue to contribute to this conversation. We welcome engagement with the Ontario government and the broader business community as government moves ahead with the implementation of the cap and trade system. Providing clarity on these and other questions will be essential to create a system that reduces emissions while fostering the conditions necessary for continued economic growth and prosperity.

Sincerely,

A handwritten signature in black ink that reads "Allan O'Dette". The signature is fluid and cursive, with the first name "Allan" being larger and more prominent than the last name "O'Dette".

Allan O'Dette
President & CEO
Ontario Chamber of Commerce