

Intelligence MEMOS



From: Pierre-Olivier Pineau, Erick Lachapelle, Jacques Papy, H el ene Trudeau
To: Concerned Canadians
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Re: **WHAT GHG EMITTERS IN QUEBEC REALLY THINK ABOUT CARBON PRICING**

Everyone has an opinion on carbon pricing. Yet little is known about the views of companies actually subject to it. We [conducted a survey](#) of 56 large greenhouse gas (GHG) emitters and energy distributors in Quebec, all directly subject to the Quebec-California carbon cap-and-trade market or paying the carbon price resulting from it. We wanted to know how these companies felt about the cap-and-trade system, as well as how they adapted to it and what their preferences are on key aspects of the system, including how the government uses the revenues it collects. Such independent analysis is needed to be able to assess the strengths of the market, and possible future challenges, as the Quebec-California market is expected to link with Ontario in a turbulent environment where no one can predict the future of carbon pricing in North America.

We were first surprised to discover that 79% of respondents support (either moderately or strongly) the Quebec 2020 GHG emission reduction target. This target is ambitious: a 20% reduction below the 1990 emission level, while Ontario aims at a 15% reduction and Canada a 17% reduction below the 2005 emission level. Even the 2030 target, set at a reduction of 37.5% below the 1990 emission level, is supported by a majority, albeit a smaller one (62%). The carbon market itself was supported by 70% of respondents before it took effect, and by 75% after its implementation. Despite our finding that the actual costs of compliance (essentially the internal and external resources to get ready for the carbon market) are often greater than what the government anticipated, the cap-and-trade market appears to have gained support once implemented.

Despite this general support, respondents also expressed several concerns. For instance, Quebec companies generally agree that this system will lead to some capital flight (79%), loss of competitiveness (66%) and offshoring or relocating facilities (62%). But 62% of respondents also rejected the idea that their own firm became less competitive as a result of the Quebec carbon market.

On the use of government revenues from the cap-and-trade system, respondents indicated they preferred direct support for energy efficiency and renewable energy. These were clearly the top two options, which easily out-pollled other options, like reducing corporate taxes. Finally, being linked to other Canadian provinces and American states scored high: for more than 90% of respondents, linking is important.

While these findings paint an overall positive picture for the cap-and-trade system, we should mention that most of the respondents are receiving free emission rights under a cap that is not yet constraining. How will they feel when the cap will tighten every year up to 2030 and beyond? The uncertainties on how to reduce emissions probably partly explains the current absence of a formal successor to the current cap-and-trade market, ending in 2020. Quebec has indeed yet to formalize its post-2020 carbon pricing mechanism, while California's government struggles to pass a 2021-2030 cap-and-trade bill. If one wants to maintain prosperity, listening to emitters should be part of the next iteration of the evolving carbon market.

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