

Intelligence MEMOS



From: Vincent Thivierge
To: Concerned citizens and companies covered by the cap-and-trade
Date: June 20, 2017
Re: **DO NOT FEAR IMPORTS OF CALIFORNIA GREENHOUSE GAS PERMITS**

The cap-and-trade market in Quebec is getting bad press lately. The market is linked to California and the fact that Quebec is [a net buyer of emission rights](#) is raising fears of "capital outflow." It is also believed that Quebec's greenhouse gas (GHG) reduction target should be achieved through reductions at home. Ontario, which is about to integrate its carbon market with California and Quebec in 2018, [is facing similar concerns](#).

Yet, Quebec and Ontario citizens and businesses should be pleased with the availability of lower-cost emissions allowances from California.

Given their low-carbon electricity generation systems, both provinces don't have as much potential for low-cost reductions as California. Not surprisingly, more reductions are likely to occur in California, and Quebec and Ontario will be net buyers.

[Modeling](#) from the Western Climate Initiative, in which Ontario and Quebec are members, suggests that the allowance price would be twice as high under the assumption of an unlinked market in Quebec. [More recent modeling for Ontario](#) suggests that permit prices could be three to eight times higher without a linked market. Because Quebec and Ontario's trade partners currently face lower carbon prices than in both provinces, higher allowance prices in unlinked markets would create additional competitive pressures for firms and higher retail prices and pump prices for consumers.

Quebec and Ontario should achieve their GHG reduction targets at the lowest, not highest cost. According to a [Canadian study](#), access to cheaper allowances in Quebec could generate savings of \$34 to \$110 million by 2020.

What about the fact that GHG reductions are made abroad? In economic jargon, the environmental damages of GHG emissions are uniformly distributed. In other words, the impact on the climate is the same whether the tonne is emitted in Sherbrooke, Scarborough or San Francisco. Efforts should instead be concerned with the [environmental validity](#) of California permits and whether they will be [recognized](#) at home, but not the geographic location of reductions.

Concerns about importing foreign permits are surprising considering the experience of the European carbon market, which has been in place since 2005. The [trade balances](#) resulting from the exchange of permits between the 24 member countries [have not been an issue](#). Even in the context of the Brexit, it is interesting to see [senior UK officials](#) urging the government to remain in the system.

The concerns in Quebec and Ontario about importing permits are ill-founded. Imports are not delaying our transition to a low-carbon economy. In fact, Quebec and Ontario have put in place [the best policy to encourage the adoption of GHG reducing technologies](#): a carbon price.

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