

Ontario's economy only minimally impacted by incoming cap-and-trade program

Toronto – The Ontario government's proposed cap-and-trade program will have minimal impacts on the province's economic growth, analysis by the Institute for Competitiveness & Prosperity reveals. The government's proposed design also achieves a significant reduction in global greenhouse gas emissions.

According to macroeconomic modelling under four scenarios, Ontario should link with the Western Climate Initiative (WCI) as soon as possible and provide support to its carbon intensive at-risk industries. In doing so, the province will achieve the greatest reductions in emissions while maintaining economic growth and competitiveness. The four scenarios examined in this paper are:

- *Business-as-usual*: the province does not introduce cap-and-trade;
- *No flexibility*: Ontario does not link its cap-and-trade system with the WCI and no support is provided to at-risk industries;
- *Link*: Ontario links its cap-and-trade system with the WCI market in 2021, but no support is provided to at-risk industries;
- *Link & support*: Ontario links its cap-and-trade system with the WCI market in 2021 and the province supports at-risk industries.

The best case scenario for the environment and economy is for Ontario to link with other cap-and-trade markets and provide support to at-risk industries in the short term. Supporting Ontario's emissions-intensive and trade-exposed industries (i.e. cement, steel) is essential to keeping firm activity and associated emissions in the province. If emissions simply relocate to other regions, the policy will not be successful in the global fight against climate change.

Supporting at-risk industries has economic benefits. Under cap-and-trade with linking and support provided, Ontario's growth rate will only be reduced to 2.05 percent from its projected annual average growth rate of 2.08 percent until 2030. Ontario is worse off under the no flexibility scenario since the average annual growth rate is reduced to 1.90 percent.

Cap-and-trade is essential to reducing Ontario's emissions. Without the policy, emissions rise to 183Mt by 2030 and the province misses its 2030 target. This will occur even with the implementation of four policies the province has already proposed: building code and vehicle efficiency standards, planned nuclear refurbishments, and renewable capacity creation.

"We see that linking with California and Québec, and hopefully others after that, allows for the lowest cost abatement to be achieved — this is the best outcome for the environment and the economy." said Jamison Steeve, Executive Director of the Institute.

In its report, *Toward a low-carbon economy: The costs and benefits of cap-and-trade*, launched today, the Institute outlines ten recommendations for cap-and-trade design, complementary policies, and communication to the business community and the public that will aid Ontario in building its low-carbon future.

About the Institute: The Institute for Competitiveness & Prosperity is an independent, not-for-profit organization that deepens public understanding of macro and microeconomic factors behind Ontario's economic progress. The Institute is supported by the Ontario Ministry of Economic Development, Employment and Infrastructure.

Download the report: http://bit.ly/WP25_Carbon

For more information contact: Jamison Steeve, Executive Director
j.steeve@competeprosper.ca
416.946.7585