
Cap and (don't) trade

How US emissions rules could hurt Canada

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THE possibility of a costly crackdown on carbon emissions in the United States should make government officials across Canada reconsider their unbridled enthusiasm for global warming regulations. The legislation now pending in Congress has evolved into a vehicle for trade protectionism that could cause real harm to the Canadian economy.

As currently drafted, the American Clean Energy and Security Act would, if enacted, establish a “cap-and-trade” scheme in the United States that could make Canada’s goods more costly in the US. That the legislation effectively grants government control over the entire energy sector does not bode well for the US economy or for Canada’s, by extension, as the latter relies heavily on a vibrant American market—its biggest export market—for its own economic growth.

The act is intended to reduce emissions of so-called greenhouse gases, principally carbon dioxide, by 20% below 2005 levels by 2020, and by 83% below 2005 levels by 2050. Under the proposed cap-and-trade program, the federal government would set an overall limit (cap) on emissions. Based on that cap, quotas would be imposed on individual sources of emissions, such as utilities and factories. The government would allocate “allowances” to each facility, representing the volume of their quota. A facility would either have to reduce emissions to meet the quota or purchase allowances from others who have exceeded their required reductions and thus can trade their allowances with others.

Even proponents of cap and trade acknowledge that the proposed regulations would dramatically increase energy costs for goods manufactured in the United States.² That prospect has prompted US industries and labor unions to demand protections against imports from countries where regulations are either not as strict or not in force (Drajem and Dodge, 2009, Feb. 20).

Consequently, the bill that cleared the House Energy and Commerce Committee on May 21 directs the president to institute a “border adjustment” program that would effectively impose tariffs on imports to neutralize the disadvantages cap and trade would create for US firms (US House of Representatives, 2009). Even if some countries did institute new emissions controls, the bureaucratic and political machinations involved in determining the equivalency of regulatory approaches around the globe would still increase import costs and likely prompt retaliatory actions from America’s trading partners.

Canada’s Environment Minister Jim Prentice has characterized the US legislation as a “prescription for disaster” for both the global economy and the global environment (Alberts, 2009, May 14).

“Border carbon adjustments would be a thinly disguised restriction on trade and an impediment both to wealth creation and to the attainment of our collective objective, which is to address greenhouse gas emissions and to reduce them,” said Prentice. “They would constitute arbitrary discrimination. They won’t work and they threaten constructive negotiations.”

The Obama administration has been quite candid about its intent to use trade restrictions as a club. For example, in March US Energy Secretary Stephen Chu told a House subcommittee that if other countries fail to restrict carbon emissions in tandem with the United States, then tariffs will be imposed “in order to protect American industries” (Talley and Barkley, 2009, Mar. 18).

The bill also mandates utilities to generate quotas of electricity from “renewable” sources, including wind, solar, geothermal, marine and hydrokinetic energy, biogas and biomass, landfill gas, wastewater-treatment gas, coal-mine methane, select hydropower facilities, and some waste-to-energy projects (US House of Representatives, 2009).

But members of Congress would do well to recognize that shutting off the Canadian oil spigot would also undercut the US economy. According to the US Department of Commerce, Canada is the leading export market for 36 of the 50 US states, and it ranks in the top three for another 10 states. In fact, Canada is a larger market for US goods than all 27 countries of the European Union combined (US Commercial Service, n.d.). To the extent that the Canadian oil industry is weakened, the nearly 500,000 workers whose jobs are related to energy activities will not be able to buy as many US goods. Meanwhile, the United States, which is in the late throes of recession, is in no position to absorb a substantial hike in energy prices.

Advocates claim that the legislation would create millions of “green” jobs. But a number of analyses indicate that

the higher costs of energy would actually force massive layoffs in energy-intensive industries, thereby offsetting any of the purported employment benefits that experience elsewhere has shown to be temporary, at best (Alvarez, 2009).

There are also indications that the protectionist bent of the cap-and-trade legislation reflects a broader shift in policy in the United States.

Organized labor has flexed its political muscle with the Obama administration, winning a “Buy American” clause in the \$787 billion “stimulus” package that requires all iron, steel, and manufactured goods purchased for public works projects to be made in the United States.

That has sparked anger among local officials in Canada. At their recent annual meeting, the Federation of Canadian Municipalities approved a prohibition on procurement bids from companies whose countries impose trade restrictions on Canada unless the “Buy American” clause is lifted within 120 days (CP, 2009, June 7). As Canadian Liberal Party leader Michael Ignatieff has said, “If they [the United States] start shutting down their procurement markets in state and local government, there are bound to be consequences” (CP, 2009, June 7).

Meanwhile, California recently instituted a “low-carbon fuel standard” that regulates the “carbon intensity” of transportation fuels. All fuels sold in the state will be required to undergo a life cycle analysis to determine the amount of energy and associated emissions required to bring the fuel to market, i.e., from retrieving the oil from the ground to trucking it to the pump (California Energy Commission, 2009). This elicited immediate protest from Lisa Raitt, Canada’s Minister of Natural Resources, who complained to Governor Arnold Schwarzenegger that the new rule would “discriminate” against petroleum excavated from the oil sands.

Evidently California regulators are unaware that oil sands excavation and

processing generates less than one tenth of 1% of total global emissions of so-called greenhouse gases (CAPP, 2008). And it is undoubtedly more eco-friendly to pipe oil across the Canada-US border than to transport 13,000 barrels a day via tanker from the Middle East.

Many government officials appear to be uninterested in or ignorant of the economic disruption that will result from these various climate-related regulatory initiatives. What’s worse is the fact that none of these regulations will have a meaningful impact on climate change. Initiatives to limit the use of fossil fuels are based on the premise that global warming is caused by human-made emissions of carbon dioxide. In fact, there exists considerable uncertainty about the interplay between CO₂ and global temperatures, and there is no scientific consensus about the causes or consequences of climate change.

Mixing climate change regulations with protectionism will result in a bona fide policy fiasco. It is well worth remembering that the increase of tariffs under the 1930 Smoot-Hawley Act led to the collapse of world trade and was a major factor in deepening and prolonging the Great Depression.

Notes

1 The total value of Canadian exports to the United States was \$335.6 billion in 2008.

2 For example, during an interview with the *San Francisco Chronicle*, then candidate Barack Obama acknowledged that “electricity rates would necessarily skyrocket” under a cap-and-trade regime (San Francisco Chronicle, 2008).

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