Fedeli **Focus on Finance**

Will Cap-and-Trade leave us Cap in Hand?

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Ontario

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Will Cap-and-Trade leave us Cap in Hand?

Climate change is a serious challenge that requires a credible plan to reduce greenhouse gas emission, while protecting taxpayers and our economy. However, we're very concerned the government will take advantage of the goodwill the public has shown on wanting to combat climate change, and turn it into a revenue tool. We saw the first signs of this when the government released their discussion paper late last year. As the Canadian Taxpayers Federation suggested, "The 66-page document might as well have been written in another language, for all the clarity of terms it provides." Here are some of the phrases the CTF quotes, and what they suggest was really meant.

'Border carbon adjustment' – is nothing more than a tariff – a tax on goods when they cross the border, based on the greenhouse gases emitted during their production. 'Free allocation' would give away free carbon credits to certain industries – allowing them to either emit with impunity or sell their credits to less-favoured industries. 'Reinvesting' into 'complementary' measures will mean using that money to pay for their already-announced infrastructure programs (more on that later). And my personal favourite – 'carbon leakage' – meaning job losses, as in a company relocates out of Ontario and into another jurisdiction where production is more affordable. Thanks to CTF's Christine Van Geyn for her colourful column in the National Post.

Overall, the discussion paper outlines a 5-year plan aiming for a 15% reduction in emissions over the 1990 levels by the year 2020. The strategy says the money will be used to fund green initiatives, but businesses and environmental groups agree that needs to be made clear, even legislated, to ensure the cash doesn't flow into general operating revenue. The paper alludes to the fact that some emitters will be exempt and some industries will be allowed to emit more than others. Finally, they announced the cost of this climate change strategy was unclear, at this time.

But the very next day, the Fall Economic Statement was released, and it turns out the government already knew of the significant role cap-and-trade would play in the province's finances.

On page 106, the government revealed that they intend to put proceeds from a cap-and-trade system directly into general revenue. Under 'other nontax revenue' it reads, "a preliminary estimate of the revenues that are expected to arise from the auctioning of cap-and-trade allowances beginning in 2017." This is followed by a graph on page 107 that denotes the total amount of revenue to be gained from cap-and-trade will be $1.6 billion by 2017-18.

Summary of Medium-Term Revenue Changes since the 2015 Budget
($ Billions)

	Current Outlook	Medium-Term Outlook	
	2015-16	2016-17	2017-18
2015 Budget Total Revenue	124.4	129.4	134.4
Source of Change			
Tax Revenue Base	0.0	0.1	0.1
One-Time Revenue Changes	0.6	0.0	0.0
Slower Economic Growth	(0.5)	(0.3)	(0.4)
Increased Revenues from Asset Optimization	1.1	--	--
Preliminary Projected Cap-and-Trade Proceeds	--	0.3	1.3
Total Changes since the 2015 Budget	**1.2**	**0.1**	**1.0**
2015 Ontario Economic Outlook and Fiscal Review Total Revenue	**125.6**	**129.5**	**135.3**

"The document also reveals for the first time how much money the government hopes to raise from a new cap-and-trade scheme that will be phased in starting in 2016. It expects to raise $300 million that year and $1.3 billion the next"

– National Post, November 27, 2014

Four months later, the budget showed an even greater take for the government. The tax is expected to bring **in $1.9 billion in 2017-18;** $600 million more than they forecasted in the FES. The 4.3 cent a litre increase in gasoline will eventually mean a $400 increase in annual costs according to private forecasts, and by 2025 natural gas will rise by $475 a year for each household heated by natural gas. The government claims residential energy rates will decrease with a $24 a year savings through cap-and-trade money, or $2 a month. But when you consider the $100 hydro increase on January 1st of this year alone, this is an insult.

The bottom line is that the government is playing precisely the same shell-game with the cap-and-trade revenue as they did with the revenue from the sale of Hydro One. **They are using it to pay for already-budgeted items, and using those previously-earmarked funds to lower the deficit.**

Why not use the same plan that was hatched for the Hydro One sleight-of-hand? After all, the playbook they used the first time seemed to work; why not simply run the same play? Once again, they buried the real meat at the end of the 56-page Bill. It's found on page 47, then 55, and back to page 47.

We'll start with what they can spend the Cap-and-Trade money on. Schedule 68, Greenhouse Gas Reduction Account 'Authorized Expenditures', Subsection 2, Paragraph 2: To fund, directly or indirectly, costs relating to initiatives described in Schedule 1 to this Act.

Let's go to Schedule 1 and see what some of the specific items are. Initiatives, Section 3 ii) Active transportation infrastructure; iii) Public transit vehicles and infrastructure; iv) Technologies, infrastructure, vehicles, buildings, and structures that reduce greenhouse gas emissions associated with the movement of goods.

So, now we know cap-and-trade can fund transit and infrastructure. But going back to Schedule 68, we see a familiar sentence as in Hydro One, a little further down the page. Subsection 3: ***To reimburse the Crown for expenditures incurred by the Crown, directly or indirectly, for any purpose describes in paragraph 2.***

They've done it again – ***build one of the $130 billion previously-announced transit projects, then use cap-and-trade money to reimburse the government for funds that were already budgeted for that project.***

Post-budget polling suggested Ontarians were skeptical of the plan, until they were told revenues were to fund greenhouse gas reduction measures. To get their spin out, the Liberal government is rolling out an advertising blitz. And look for quite a bit of spin. Responding to the media, the Climate Change Minister insists "we couldn't legally subsidize a deficit or build a highway" with the new money. "We have $1.9 billion that we can only spend on the stuff that's going back to Ontarians, into their cars, their homes, and into their businesses," the Minister stated, even though the actual Bill clearly states the opposite to be true.

A voice from the past

People are starting to catch on to what this really is, as we hear from former Finance Minister Greg Sorbara. He took his former government colleagues to task when he said, "Although the (Finance) Minister said there are no tax increases, the fact is that there's a $1.9 billion increase. I call it a flow-through tax that will ultimately affect consumers … it's an interesting way to raise money while saying, at the same time, you're not raising taxes." He went on to say "I have to be a little bit skeptical about the whole scheme, other than it's going to bring … a whole lot of new money into the government."

Financial Accountability Officer speaks out, again

At the end of the month, the Financial Accountability Officer appeared as a deputant at the Cap-and-Trade Committee Hearings. Stephen LeClair stated the revenue brought in through cap-and-trade will end up influencing the government's deficit and surplus figures. The cap-and-trade proceeds will end up in general revenue, the same as taxes and federal transfer funds (and, as we discovered, the Hydro One sale revenue).

LeClair jumps right into Section 68 (as I outlined above), and states it "may hinder my ability to provide you and your fellow members with information on the fiscal impacts of the Act."

He stated, "There could be a case where even if revenues do match expenses there could be an impact on the surplus or deficit of the province." And he warns, "This would occur if some of the expenses were not on new initiatives but were tied to previously planned expenses."

He continued to express the same concerns he had with the sale of Hydro One, with respect to the government limiting his access to necessary data. In his presentation he stated, "I am becoming increasingly concerned that ministries are claiming that too wide a range of government information falls under the Cabinet records exception."

He spends the last 3 pages of his submission on Section 68, beginning with, "I would like to highlight one of my particular areas of concern, which is relevant to subsection 68(3) of the proposed Act."

Conclusion

The Financial Accountability Officer, through his most recent report, confirms our take on exactly what is happening with the cap-and-trade revenue! Exactly like the government did with the Hydro One revenue, the cap-and-trade revenue is being used to pay for already-announced infrastructure and transit programs, and the existing money is being used to artificially balance the budget!

Key Questions

Why did the government refuse to adopt our amendment to the Budget bill that would have closed the loophole allowing them to remove money from their cap-and-trade special account?

Will the Minister admit the cap-and-trade revenue will be used to help reduce the deficit?

Will the government give cap-and-trade money back to taxpayers if this scheme fails to reduce carbon emissions to its promised 2020 targets?

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