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● (1105)

[*English*]

The Chair (Hon. Judy A. Sgro (Humber River—Black Creek, Lib.)): I call the meeting to order.

Welcome to meeting number 132 of the Standing Committee on International Trade. Pursuant to Standing Order 108(2) and the motion adopted by the committee on Thursday, May 23, 2024, the committee is resuming its study of the trade impacts of Canada's leadership in reducing emissions.

I will introduce our witnesses today. From the Canadian Steel Producers Association, we have Catherine Cobden, president and chief executive officer; from Carleton University, we have Eric Van Rythoven, instructor and adjunct research professor; and from Borden Ladner Gervais, we have Rambod Behboodi, senior counsel.

Welcome to you all. We will start with opening remarks of up to five minutes, please.

Ms. Cobden, we'll start with you.

Ms. Catherine Cobden (President and Chief Executive Officer, Canadian Steel Producers Association): Thank you, Madam Chair.

Good morning, everyone. We really appreciate the opportunity to appear before you today to share the views of Canadian steel producers on the role of trade measures as part of Canada's climate change response.

As this committee is aware, the CSPA is the national voice of the Canadian primary steel industry, as well as of some of the largest steel users in Canada. Our 16 members represent 123,000 direct and indirect jobs. They contribute $15 billion to the GDP and have facilities in Alberta, Saskatchewan, Manitoba, Ontario and Quebec.

In general terms, carbon trade measures are seen as a tool to level the playing field for domestic industries that face higher costs due to domestic climate policies, and to prevent carbon leakage through shifts to jurisdictions with less environmental regulation. Trade measures should indeed form part of Canada's comprehensive tool kit in the fight against global climate change. That said, these measures can take many forms. I will share with you some views on two distinctly different approaches that we are witnessing globally around steel-specific carbon trade measures—namely, the CBAM in the EU and the product intensity tariff approach contemplated and under preparation in the United States.

The CBAM requires importers to purchase certificates that mirror the net carbon price paid by the EU's domestic industry. The design of the CBAM has major flaws for the EU steel industry, given its accelerated phase-out of free allocations in its carbon pricing regime, as well as a lack of export tax rebates. These concerns far outweigh the benefits gained from having the CBAM in place. Similarly, the Canadian steel industry would share these concerns if CBAM, as designed in the EU, were adopted here in the same manner.

Furthermore, Canada has another consideration that warrants careful attention. Basing a carbon tariff on a carbon pricing regime would undoubtedly create trade tensions with our largest trading partner, which does not have a carbon pricing regime. For all of these reasons, the CSPA would reject an approach to carbon trade measures in Canada that mirrored the EU's CBAM.

Alternatively, the United States has launched a major undertaking through the U.S. International Trade Commission, the USITC, to establish product-level carbon intensity-based tariffs for steel imports into the United States. Essentially, tariffs would be set for a range of carbon intensities for a range of products and would apply to the import price of the steel, making it very similar to a “232-style” tariff regime. This refers to section 232, one of the tariff programs in the United States. The USITC will deliver their body of work to the new Trump administration in February, opening up, in our view, another possible tariff pathway to be pursued by that administration, should they choose.

It is worth noting that the steel industries of Canada and the United States have comparable carbon intensity levels for steel products. According to a third party benchmarking study conducted by the Global Efficiency Intelligence consulting firm, our respective intensities are many times lower than those of offshore steel producers, particularly those with a track record of unfair trade—China, Turkey, Vietnam and many others. The CSPA would be happy to submit this benchmarking study to CIIT for your reference, if it's deemed of use.

I'd like to remind the committee that 50% of Canadian steel production is exported to the United States, while only a negligible amount, around 0.1% of all exports, is shipped to the EU. To be clear, market factors, as well as the overall carbon performance levels, suggest that climate tariff alignment with the United States would be far more favourable than one between Canada and the EU.

Furthermore, a carbon tariff approach coordinated with the U.S., if it could be arranged—that's a big “if”—would provide another opportunity to strengthen what is already one of the strongest trading relationships in the world and further our critically important efforts to align trade policy with the United States.

From tariffs on Chinese steel products to requiring country-of-melt reporting for all imports and the many trade cases launched by the industry, Canada is on its way to demonstrating, with real proof, just how serious we are about protecting our respective markets from unfair trade.

Thank you.

● (1110)

The Chair: Thank you very much.

It's on to Dr. Van Rythoven for up to five minutes.

Dr. Eric Van Rythoven (Instructor and Adjunct Research Professor, Carleton University, As an Individual): Thank you, members of the committee. It is a great privilege to be here.

I'm going to avoid the technical details of CBAM and focus on the bigger political picture.

I want to suggest that there has been a series of global shifts that help explain the emergence and significance of CBAM. These shifts suggest not only that CBAM is here to stay but also that we will see more carbon tariffs in the future. This matters for Canada, because it points to a high level of political and economic risk. What do I mean by that? The day may come when it becomes good politics to punish climate laggards like Canada. CBAM represents one step closer to that day. This committee and other Canadian political leaders need to have a serious conversation about how to prevent that from happening.

What are these global shifts?

The first is the normalization of protectionism. In the 1990s, 2000s and part of the 2010s, the orthodoxy was that we liberalize trade. Now that orthodoxy is on the back foot. Trump's tariffs are a good example of this. When he said he was going to put a 25% tariff on Canadian goods, what surprised many of us was the 25% part. It was not that he was using tariffs, because these have become normalized as part of Canadian trade policy.

The second shift is that concern about climate change is growing around the world. I discussed some of the polling data in my written statement, but the summary is this: Other countries increasingly see climate change as a major problem and want their governments to do more.

The third shift is that other countries are increasingly suffering extreme climate events, and these countries are often our trading partners and allies. Whether it is the United States, Spain, Germany or anyone else, what we are seeing are a rising number of mass casualty events that can cause billions of dollars, if not tens of billions of dollars, in damage.

The fourth and final shift I'd point to is an uncomfortable truth: Canada is a climate laggard. I'm not saying we should dismiss Canada's climate successes. There have been many successes. However, when you compare Canada to other countries, in particular our G7 peers, we are not doing well, and the gap is growing.

What do these changes add up to? My concern is that they add up to a scenario where other countries look at us and ask why Canada, a rich and prosperous country, is not doing more. There is a very real risk that other countries that are making sacrifices to fight climate change and suffering extreme climate events are going to be angry and resentful towards those who freeride on their efforts. This anger and resentment are going to create strong political incentives to punish freeriders. At that point, the rhetoric around Canada's climate leadership will matter little when the prevailing sentiment is, “Make the bastards pay.” This is the scenario that concerns me.

How do we avoid this? We avoid it by taking credible action on climate change that closes the gap between us and our peers. We can talk about what that looks like today, but I would suggest doing something soon, because, right now, CBAM is designed to gently push countries towards climate action. In the future, it may not be so gentle.

Thank you for your time.

The Chair: Thank you very much, sir.

Mr. Behboodi, please go ahead for up to five minutes.

Mr. Rambod Behboodi (Senior Counsel, Borden Ladner Gervais LLP): Good morning, Madam Chair and members of the committee. It's an honour to appear before you to discuss trade and climate change.

Let me start by introducing myself. I will then give an overview of two issues raised by the title of your study—namely, reducing emissions and trade impacts—and conclude by talking about Canada's leadership.

My name is Rambod Behboodi. I'm senior counsel at the law firm of Borden Ladner Gervais. For the last 32 years, my practice has focused on international trade law and policy. As trade lawyer, diplomat and negotiator for the Government of Canada, I had the privilege of negotiating key multilateral environmental agreements that advanced and protected Canada's interests in respect of trade in chemicals, control of pesticides and genetically modified organisms. I was also engaged for over a decade in trade litigation in defence of our natural resources and agriculture sectors. In private practice since 2017, I have advised developed countries and NGOs on deforestation, plastics and other climate change measures; and developing and less developed countries on trade liberalization.

I will now turn to the first of the two substantive issues, reducing emissions. Why should we do it? Simply put, if we go on as we have been going on, the human contribution to climate change will likely transform the planet in a way that we humans are not capable of dealing with. The planet will go on, of course, and so will some of us, but as things are, we're looking into the abyss. We have to change the way we do things.

● (1115)

[*Translation*]

What does that mean for trade? In the world of trade, we talk about win-win solutions. I'm here to tell you that, if we play our cards right—and Canada has an excellent hand—there is every reason to believe that we, our trading partners and the planet will come out on top.

Here, I want to mention two important concepts.

[*English*]

The first is externalities. Imagine that your neighbour is in the middle of major renovations. He dumps all the construction debris on his front lawn. It's an eyesore. It's possibly a health hazard if, like me, you’re allergic to dust. If you go to him and suggest that perhaps the debris should be landfilled, and he replies, “It’s my front lawn, and do you know how much landfilling costs?”, we would call that a negative externality. It's where economic activity, a good thing in itself, gives rise to costs imposed on others.

Uncontrolled carbon emissions are like the debris on the front lawn. No one is saying we should ban construction, but we should expect that the person creating the debris will have it removed and assume the costs.

[*Translation*]

The same applies to the second concept, carbon pricing. If you, as a consumer, knew the real impact of carbon emissions, you would adopt more responsible consumption habits. In a free market like ours, pricing is the best way to convey information to consumers and pass on costs to those who should pay.

We can do all that domestically, but we know it isn't enough. That is where trade impacts come in.

When the costs related to the production of goods within a country are high because of, say, carbon pricing, organizations tend to look at moving their operations outside the country for trade reasons. The result is an increase in carbon leakage, in other words, the relocation of production to an exporting country with a less stringent climate policy and carbon pricing system.

That does nothing to help trade, the environment or the legitimacy of climate change actions.

[*English*]

This is how we arrive at border carbon adjustments, which have been mentioned. We can discuss those later.

In my remaining time, let me turn to Canada's leadership. Canada is very trade-exposed. It's in our interest to ensure that the global framework for carbon pricing functions well. How? Abroad we must remain engaged and active, leading by persuasion and by example. At home—that's the example—judicious deployment of domestic and trade policy can ensure that our exports remain competitive internationally. A homemade carbon pricing framework, along with appropriate border adjustments, may be the most effective mechanism to forestall or offset all, or at least most of, the carbon costs associated with trade.

Thank you again for inviting me today. I will be happy to answer your questions.

The Chair: Great. Thank you very much to the witnesses. I'll now open it up to questions.

Dan, the floor is yours for six minutes, please.

Mr. Dan Muys (Flamborough—Glanbrook, CPC): Thank you, Madam Chair. It's a pleasure to be here.

My questions will be for Ms. Cobden. Obviously, as an MP from Hamilton, or Steeltown, I appreciate the work that is done by the Canadian Steel Producers Association. I know that our friends at Algoma are instrumental to the steel industry as well, so I'll also give them a nod.

You indicated that 50% of our exports are to the U.S. and that 0.1% go to the EU. Maybe you can elaborate on what you see as the trend line going forward. I know that a number of different things could impact that. Are we intensifying, or...?

● (1120)

Ms. Catherine Cobden: Thank you for that question. It's always great to connect with an MP from Hamilton.

The discussion around the EU CBAM and, of course, the threat of tariffs coming out of the United States continue to raise a question about whether the Canadian steel industry can grow market share in Europe. I hear that as well in your question—trend lines.

We don't anticipate significant growth in the European market for Canadian steel. The reason for that is multifold. There's a large existence of overcapacity in the world, and they're already well into the European market. As well, they have their own domestic producers, so we don't see growth in the EU. That 0.1% is likely to stay about that. By the way, that goes back as a trend line for many years. It's not a new phenomenon.

As far as the U.S. goes, I think a lot of that is unknown at this point. We do require and rely on access to the U.S. market for 50% of our production. We maintain that needs to be far and away our most significant priority. That trend has been around for some time, and we hope it continues into the future.

Mr. Dan Muys: Obviously, the Canadian and U.S. steel industries are quite integrated, as we know. Thank you for elaborating on that.

The Canadian Steel Producers Association has raised alarm bells, of course, about our competitiveness and the increase in our carbon costs versus those in competing jurisdictions. Can you comment on the impact of the carbon tax, in whatever form that is, on the Canadian steel industry?

Ms. Catherine Cobden: Before we had a carbon price, our steel industry was suffering in our competitive position when we had to compete with unfair traders who were dumping into our market. Now we have the added problem of trying to compete with fair traders, like the Americans, who are very prevalent. They represent 40% of our import share, and we're competing with them, and they do not have a carbon price. Given the $80 per tonne of CO_2 emissions that we now face, that makes a significant difference. The issue is that the carbon price will continue to rise year over year, by $15 per tonne. That just intensifies the competitiveness challenge.

Mr. Dan Muys: I know that the Canadian steel industry has made significant progress in terms of the greening of steel. We've heard about that.

I'd be curious to hear your reaction to some of the comments from the other two witnesses, given what has already been accomplished by the industry here.

Ms. Catherine Cobden: I can only speak for the Canadian steel sector, which I'm very proud of. I hope you all are as well.

In partnership with the federal government and the provincial government, we have decarbonization projects that will result in 6 million tonnes of CO_2 removed from the atmosphere. Those projects are globally significant and, frankly, nationally relevant in terms of our overall greenhouse gas emissions in the country, let alone the sector.

Mr. Dan Muys: I think the comments from a couple of the other witnesses here were that Canada is obviously a laggard and that that's going to come back to bite us. I'd be curious to see if you agree with that or could comment further on that.

Ms. Catherine Cobden: What I'm trying to say is, from the perspective of the Canadian steel producers, we are doing very well on a global stage with respect to...but that doesn't mean the pathway for the rest is going to be easy. Nonetheless, we have a good jump onto the reductions from this sector. That's really all I can speak to today.

Mr. Dan Muys: You indicated that every increase in the carbon tax that's coming in—and as you indicated in your opening statement, the U.S. doesn't have that—is going to widen the gulf in terms of our competitiveness. Given the integration of our industries and the importance of the U.S. market to us as Canadian steel producers, how concerned are your members about that?

Ms. Catherine Cobden: Our members continue to be highly concerned.

At this point, we have asked for a freeze on carbon pricing rises, as well as stringency and trade exposure protection reductions, because we are facing already....

I think all sectors are at different points, but it's been well documented by the Canadian Commission on Carbon Competitiveness that steel is one of the most significantly at risk under the carbon pricing regime. We underline that by calling for a freeze on price and stringency for a period of time, because we don't have the solutions. We're doing solutions that we can, hence the 6 million tonnes, but we need additional solutions, many of which are outside our control. An example of that would be green hydrogen access at scale or clean electricity across all of the country.

● (1125)

The Chair: Thank you very much.

Next is Mr. Sheehan for six minutes.

Mr. Terry Sheehan (Sault Ste. Marie, Lib.): Thank you.

The other steel town is Sault Ste. Marie, home to Algoma Steel and Tenaris, which are very significant employers in our community, as well as for Canada. To your point, Algoma itself exports 50% of its steel to the United States.

We took some bold action to reduce the carbon our steel industry was producing, not just in Sault Ste. Marie but also in Hamilton. The Soo was the first to announce $420 million, which is going to be generational. I always mention this here at committee: When I was first elected, Algoma Steel was in bankruptcy and Tenaris had a handful of people. Tenaris now has 800 people, for example. We've been investing in modernizing it and producing less carbon for quite some time.

The question for you, Catherine, is this: How can we leverage the fact that our steel exports are some of the greenest around? When this project is complete at Algoma, 70% less carbon will be produced. That's like taking a million cars off the road. How can we leverage that with the EU under their CBAM framework?

I'll let the other witnesses take a stab at that, too.

Ms. Catherine Cobden: I wish we could leverage it further in the EU. As mentioned in my response to Mr. Muys, we don't predict more access for Canadian steel in the European market.

We find this to be a very interesting proposition, though, for the U.S., should this new administration be interested. Who knows what it will be branded as, Terry? Perhaps it will be “foreign pollution tariffs” or that sort of thing. That's among the new terminologies we're hearing for this. One of the ways we can leverage this is by working with the United States.

To your point, given that our CO2 emissions are some of the best in the world, as are the ones in the United States, we have a great opportunity to work together on this challenge and use it as another instrument to combat what we're always talking about: the overcapacity in steel that is creating such havoc for Tenaris, Algoma and all of our.... I don't want to start naming them, because I'll have to name 16 member companies.

Anyway, you understand. That is, I think, a core task at hand.

Mr. Terry Sheehan: Thank you.

I'll let Eric take a stab at this, too.

Because we're showing such leadership in terms of overall trade arrangements with the EU, how can we leverage what we've done with steel to reduce our emissions? I think one of you, in your testimony, talked about the leadership we have to show on fighting climate change.

Dr. Eric Van Rythoven: Thank you for the question.

The point I want to clarify is that, yes, Canada has had climate successes. I think my colleague here pointed to a very important climate success for Canada's steel industry.

What I'm talking about is Canada as a country. When you compare our carbon emissions with those of our G7 peers, we are quite a bit behind. We are dead last in the G7.

I don't think I should presume to speak for the steel industry in relation to CBAM, though, so I'm going to back away from that one.

Mr. Terry Sheehan: Fair enough.

Catherine, we started talking about what everyone knows as the elephant in the room: China and its overcapacity. We haven't discussed melt and pour or anti-circumvention a lot. We've done anti-circumvention before, in previous budgets.

Can you please explain how melt and pour works, for the record, and how that is helping to reduce some of the dirtiest steel ever made?

Ms. Catherine Cobden: Excellent. If I may, I will also highlight section 53 tariffs.

You mentioned bold action. I think Canada—with the support of everybody around this table, by the way—took bold action against China with tariffs set at 25%. That was super helpful, not just for this problem but also for convincing our U.S. colleagues that we take this issue very seriously.

On top of that, you can add in melt and pour, which just went into effect on November 5. This gives much-needed transparency to a supply chain that is fraught with unfair trade. Melt and pour is under way, but we need to ensure fast execution.

Finally, on anti-circumvention, we have a framework. It was announced a few budgets ago. I can't remember the exact timeline. However, we feel there is opportunity to strengthen the anti-circumvention framework and do more. We want to do that for our domestic market considerations, as well as, again, align with the United States and say, “We're not the problem here.”

● (1130)

Mr. Terry Sheehan: Right, and since we have you here, then what happens if the United States increases its tariffs on the Chinese steel. Would you suggest that we also increase tariffs to stay in lockstep with them?

Ms. Catherine Cobden: Yes, as a general philosophy, we think we should keep pace with the United States.

Now, that being said, we're hoping to do this on an analytical base. The tariffs came into place on October 22. We'll know in the next six months or so—you know, how long will it take to develop a trend line?—how effective they're being. Then, whether the U.S. does this or not, we may wish to open up a conversation about whether the tariffs are high enough.

I will remind you that the U.S. not only have their 301 tariffs at 25%. They also have the 232 tariffs at 25%. In a lot of cases on steel, they're tariffing China at 50%, and we're at 25%. We're not yet sure whether 25% is sufficient, but we do recognize it as a bold step forward.

Mr. Terry Sheehan: One of the things that—

The Chair: I'm sorry, Mr. Sheehan. Your time is up.

I have Mr. Savard-Tremblay, please, for six minutes.

[*Translation*]

Mr. Simon-Pierre Savard-Tremblay (Saint-Hyacinthe—Bagot, BQ): Thank you, Madam Chair.

Thank you to the witnesses for their presentations.

Ms. Cobden, you were asked whether tariffs were sufficient, and you said you didn't know yet. You didn't have time to finish your previous answer, but I would like to give you an opportunity to do so, since I wanted to discuss the same thing. Before we talk about solutions, though, we need to talk about problems. Are you able to confirm for us that Chinese steel is produced in accordance with environmental standards that are nowhere near up to North America's?

[*English*]

Ms. Catherine Cobden: Yes.

[*Translation*]

Thank you for your question.

[*English*]

In fact, we can confirm—again, through third party consulting studies, not our own—that Chinese emissions are very much higher in steel than in Canada and the United States collectively. Essentially, when we're allowing China into our marketplace, not only is there a job erosion issue because they're dumping steel and it's an unfair trade practice, but it also so happens that we're importing high amounts of carbon emissions that are essentially part of their production processes. Again, this speaks to the importance of our various tools to prevent carbon leakage and address unfair trade, because they're intricately linked in the steel sector.

[*Translation*]

Mr. Simon-Pierre Savard-Tremblay: You therefore recommend tariffs, especially in response to dumping, but also to curb the importing of steel that adheres to much lower environmental standards. That is why your association is in favour of such tariffs.

Let's talk about a possible Canadian carbon border tariff regime, one that works and does not conflict with Canada's international commitments.

What would you recommend to Ottawa as far as a regime like that is concerned? Are there negotiation and implementation challenges the government would have to plan for?

[*English*]

Ms. Catherine Cobden: Yes, I think there's a lot of work to be done. As far as the world trade order or the World Trade Organization goes, there's work to be done by them to better incorporate climate considerations, but our view is that we could do climate tariff work at our borders and, essentially, we can and should do that in a manner that is consistent and in collaboration, if possible, with the United States.

We don't want to take any more actions that create trade tensions between Canada and the United States, for reasons I've described: the integration of our economy, tariffs harming both sides of the border, being among allies and that sort of thing. That would be our sort of approach.

● (1135)

[*Translation*]

Mr. Simon-Pierre Savard-Tremblay: Mr. Van Rythoven, trade agreements such as the Canada-European Union Comprehensive Economic and Trade Agreement, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership and the Canada-U.S.-Mexico agreement contain specific requirements preventing the signatories from weakening environmental protections to favour trade. The government is saying that the current protections appear to be preventing carbon leakage, in other words, the relocation of greenhouse gas emissions.

Do you think the provisions in the agreements could do the opposite and encourage some companies to move their operations outside the country?

[*English*]

Dr. Eric Van Rythoven: I thank the member for the question. I'm not sure I quite understood the end of it. I think it was about agreements and their effects on carbon leakage.

I think my more general statement today would be that the political environment globally is changing. Not only are countries going to adopt these particular climate measures to reduce their emissions, but there is going to be a broader political incentive. They're going to be much more appealing to domestic audiences.

[*Translation*]

Mr. Simon-Pierre Savard-Tremblay: Thank you.

I'd like to use the minute I have left to move a motion that was provided to committee members on Friday. It reads as follows:

> That, considering that 22 service interruptions were noted during the first month of operation of the Canada Border Services Agency Assessment and Revenue Management (CARM) portal, some of which extended beyond 3 hours, and that the service standard during the first four weeks remains below the 99.9% target set by the Canada Border Services Agency (CBSA);
>
> Considering the numerous shortcomings reported by stakeholders, including errors in calculating duties and taxes, difficulties in making payments, inaccuracies in statements of account, problems logging on or registering for the portal, and an increase in the level of unexpected recourse to workarounds to manage the system since its implementation;
>
> Considering the high level of dissatisfaction expressed by stakeholders, revealed among other things by the survey conducted by the Canadian Association of Importers and Exporters among its members, the results of which, forwarded to the members of the Committee, highlight an inability to reach the helpdesk to resolve problems, and a lack of knowledge of CBSA staff hampering their ability to provide adequate support;
>
> Considering that all the stakeholders who testified before the Committee, with the exception of the Agency, have been sounding the alarm for several months, and again in September 2024, about the system's technical problems and the lack of training and consultation with stakeholders, and that these witnesses repeatedly contradicted or denied the assertions made by Agency representatives when they appeared before the Committee on March 19 and September 25, 2024;
>
> Considering that the initial budget allocation for the CARM was $371.5 million over 10 years, and that as of December 31, 2023, the CBSA had already disbursed $556.8 million, an amount that has continued to rise in 2024 and will continue to do so in view of the numerous deficiencies to be corrected; and
>
> Considering that the development of the CARM portal was initiated 14 years ago, and that the Agency has postponed the implementation of its platform three times since 2021;
>
> The Committee recommends that the Auditor General conduct a performance audit of the CBSA's development and maintenance of the GCRA, including the roles and responsibilities of suppliers and subcontractors.

I would like us to debate the motion, Madam Chair.

[*English*]

The Chair: Thank you very much, Monsieur Savard-Tremblay.

The floor is now open to debate your motion, or, since we have scheduled committee business for the last 15 minutes, could we defer it and debate it so that we can continue with our witnesses? What is your desire?

[*Translation*]

Mr. Simon-Pierre Savard-Tremblay: I actually don't know how long the debate will take. I guess it depends on what members have to say. If everyone agrees, we can dispose of it fairly quickly, I would think.

[*English*]

The Chair: Go ahead, Mr. Johns.

Mr. Gord Johns (Courtenay—Alberni, NDP): The NDP supports this. We think that this is pretty straightforward, writing a letter and making this request. Hopefully we can just vote on this and move forward.

The Chair: Mr. Williams, you have the floor.

Mr. Ryan Williams (Bay of Quinte, CPC): Yes, we agree as well. This is something we warned was going to happen when we discussed this at committee, so we certainly support these steps going forward to get this rectified.

● (1140)

The Chair: It's the will of the committee, then, that we deal with this issue.

I apologize to our witnesses. Just have a bit of patience here.

I will refer it back to the clerk for a recorded vote, or may I make it a question? Is everybody in agreement with the motion?

Some hon. members: Agreed.

We don't need to waste any time. We are the most efficient group you'll find here, Mr. Miao, so welcome to our group.

[*Translation*]

Mr. Simon-Pierre Savard-Tremblay: I would still like a recorded division.

[*English*]

The Chair: It's a question of time. We have two witnesses, and we have another panel of witnesses coming, and it's adopted and passed.

[*Translation*]

Mr. Simon-Pierre Savard-Tremblay: It takes about 30 seconds, Madam Chair.

[*English*]

The Chair: Okay. Go ahead, Mr. Clerk.

(Motion agreed to: yeas 11; nays 0)

The Chair: Nobody is in opposition, so that was dealt with fairly quickly.

[*Translation*]

Mr. Simon-Pierre Savard-Tremblay: You see, Madam Chair, it didn't take long.

[*English*]

The Chair: You see, it took no time at all, absolutely, but we didn't debate it at all. That's the will of the committee, and we're fine.

Mr. Johns, it's your floor now for six minutes, please.

Mr. Gord Johns: Thank you, Madam Chair.

It's great to be joining the committee today.

I'll start with you, Ms. Cobden.

We know that Canadian steel is manufactured in a much less carbon-intensive way than the dirty steel that comes from other countries, like China and India. Can you talk about how buy clean policies could help support the Canadian steel industry?

Ms. Catherine Cobden: It would be a really strong opportunity for buy clean policies for the steel sector if they were to be adopted in Canada. It's also fully compliant with the trade order, the WTO, etc. We would and do ask for buy clean to be part of the comprehensive tool kit on climate change. We have, I think, taken steps towards it, but not steps that work for the steel sector yet.

Mr. Gord Johns: One element of the U.S.-Canada steel dispute is that the U.S. accuses Canada of being a back door to Chinese products. They say our anti-circumvention framework isn't working.

Can you speak about how we could fix Canada's anti-circumvention regulations and how this would help our relationship with the U.S.?

Ms. Catherine Cobden: The first thing we should all tell the Americans when they say we're a back door to China is that we have introduced tariffs, section 53 tariffs. All parties supported this to introduce a 25% tariff on Chinese imports. That is huge. We also introduced “melted and poured”, which is also important.

The third and final piece that must be done is improving the anti-circumvention legislation. While we have a framework, the domestic industry is communicating very clearly to everyone that it's not sufficient and doesn't meet the test of the United States.

There are several legislative changes we'd like to see take place. We are happy to submit those to the committee.

Mr. Gord Johns: I'll go to you, Mr. Behboodi.

First, thank you for your testimony. This isn't steel-related. I come from a forest community on Vancouver Island, Port Alberni.

The federal government highlighted in the 2023 fall economic statement the opportunity for Canada to leverage the economic and environmental benefits of waste biomass conversion for heat and energy, noting that it's a high-potential decarbonization pathway. As the Canadian forest sector weathers significant market headwinds, particularly, as I said, in my home province of B.C., extracting more value from forest biomass will offer significant opportunity for forestry workers and communities, yet the government has been dragging its feet.

We know that, as a source of carbon-neutral energy, biomass has the potential to provide Canadian electrical grids with a sustainable and reliable source of energy while creating high-paying jobs for rural and remote communities. It also includes the displacement of emissions, intensive forms of energy used to power our communities while reducing the vulnerability of our forests to devastating fires.

Could you speak about how timely the passage of these ITCs is as part of the fall economic statement? Certainly we know that industry stakeholders have grown deeply concerned about the long delays in the passage of this implementing legislation, recognizing that Canada's competitors in the United States have had a two-year start with the passage of the IRA, which includes similar investment tax credit provisions.

● (1145)

Mr. Rambod Behboodi: I'd just like to say that I began my career in steel defending the industry against unfair trade, and I spent a great deal of time in my career defending the softwood lumber industry in British Columbia, so your question brings me happy memories, both professional and personal.

The short answer is that we should be doing everything yesterday. The challenge we have in Canada is not just access to the U.S. market, which is always under some sort of stress. We heard just yesterday President Trump saying that Canada is being subsidized to the tune of $100 billion, and so on and so forth. This is on top of all the tariff threats, so there is that angle.

The other thing that we obviously have to worry about is the subsidy measures in the United States. On the one hand, our access to the U.S. is under threat. On the other hand, our competitiveness in the U.S. and globally is under threat as a result of those measures, which says to me that, even though we obviously have very limited capacity to constantly compete with U.S. subsidies, we really do need to be alive to those challenges and, where we can, match them.

Mr. Gord Johns: Thank you.

This is really important to the Catalyst paper mill in Port Alberni, where I live, and to workers in the forest sector. I hope the government will move rapidly in following through with its promise from last year's FES.

People are losing their jobs. We lost a sawmill in our community last week. I really hope the federal government will move with urgency.

The Chair: Thank you.

We'll go to Mr. Martel for five minutes, please.

[*Translation*]

Mr. Richard Martel (Chicoutimi—Le Fjord, CPC): Thank you, Madam Chair.

Thank you to the witnesses for being with us today.

My question is for Ms. Cobden.

I'd like to know how the carbon tax has affected the competitiveness of Canada's steel industry.

[*English*]

Ms. Catherine Cobden: Thank you.

Indeed, there's been an impact already, at $80 per tonne. It is a cost to our business that many other jurisdictions in our marketplace, which we're competing with every day for the sale of steel, do not face.

It is imperative for us to recognize that we do not live in a system that's homogeneous. Different countries have different approaches, but our approach is putting competitive pressure on the steel industry. As I mentioned before in this Q and A, different sectors are at different stages of pressure. The steel industry is at the bleeding edge, if you will, of pressure under the carbon pricing regime.

[*Translation*]

Mr. Richard Martel: In terms of a carbon border adjustment policy, steel is one of Canada's most at-risk exports.

Have you done any in-house forecasts to measure the potential impact such a policy could have on Canada's steel industry?

[*English*]

Ms. Catherine Cobden: Should the U.S. impose 25% tariffs on the domestic steel industry, it will have a devastating effect. For a year, starting in mid-2018, we had 25% tariffs on the industry. Every one of the CEOs on my board has been very clear that it is extraordinarily devastating.

The point I would add is that we have the opportunity, particularly in steel, to remind the Americans of how the 25% tariff also deeply affected their side of the border. It does harm on both sides when you have such an integrated economy, as we do in steel.

● (1150)

[*Translation*]

Mr. Richard Martel: That's interesting.

Are steel companies prepared to absorb the additional administrative cost that goes along with implementing a carbon border adjustment mechanism, or CBAM, like greenhouse gas emissions reporting?

Would it to be a disproportionate burden, do you think?

[*English*]

Ms. Catherine Cobden: I guess it would depend on how the BCA is prepared. I'm not talking about the CBAM but about the carbon trade measure, however it's designed. I was quite clear in my opening statement that the CBAM is not a design that would serve us well, and we are categorically opposed to it, if I may say so. However, there are ways to design it that would be effective, and particularly effective if we coordinate it with the United States.

We support the idea of carbon trade measures as long as we are, to your point, not designing them in a way that's extremely challenging, like the CBAM, and—not “or” but “and”—are aligning them with the United States.

[*Translation*]

Mr. Richard Martel: How much time do I have left, Madam Chair?

[*English*]

The Chair: You have one minute and 20 seconds.

[*Translation*]

Mr. Richard Martel: All right.

I'll continue with you, Ms. Cobden.

What specific challenge do you see in Canada and the European Union's working together to harmonize the CBAM and Canada's carbon pricing regime?

[*English*]

Ms. Catherine Cobden: We're in an interesting situation whereby our climate policies are most aligned with the EU's, but our market, at least in steel, is most aligned with that of the U.S.

Our situation is complicated because, as I've already described, it's not a matter of just shipping more steel to the EU. That is not a market that's open to us, and we don't foresee that happening. Therefore, we must maintain the U.S. market access, and we must protect our domestic market. Those are two things we must do, but the carbon pricing regime, as I said, is not aligned with the U.S. regime.

We've already discussed the IRA. We have some IRA-type tools here, but not all of them and certainly not in the same way. Also, we have strong alignment with the EU, but it's not our market.

[*Translation*]

Mr. Richard Martel: Thank you.

[*English*]

The Chair: Thank you very much, Mr. Martel.

Go ahead, Mr. Badawey.

Mr. Vance Badawey (Niagara Centre, Lib.): Thank you, Madam Chair, and thank you to the witnesses for being here today.

I want to dig a bit deeper, from the how to the what—that being levers we can put in place to actually open up more co-operation with the United States. Obviously, the regime that we have in place here in Canada with respect to carbon pricing aligns with the regime that the EU has, and for the most part it prevents a lot of what I'll call border taxes or pollution taxes at the border from occurring, which is a good thing. Otherwise, we'd be paying those tariffs and, quite frankly, it would cost us more if we didn't have the regime in place. As you noted, though, Ms. Cobden, the U.S. doesn't have that regime in place.

What I'm particularly interested in, especially going forward with the negotiations and discussion—I won't call them negotiations yet; I'll call them discussions—with the U.S. specific to China, with it being a high emitter of carbon, and other countries.... It's not, by the way, just about steel. It's about all products.

Do you find that there's an opportunity to work more closely with the U.S. to share this same regime in our discussions moving forward, to strengthen our collective international trade performance and use it as a mechanism to compete more effectively against China? Will putting these carbon trade measures in place with the U.S.—again, not just with steel, but with all products—therefore make the markets more robust for both Canada and the U.S.?

Ms. Catherine Cobden: That's what we hope. Again, we can't predict the future. Our stance at CSPA, and this is confirmed, basically, by all of the leadership of the steel sector across Canada, is that we need to demonstrate the best and prepare for the worst as it pertains to Canada-U.S.

Demonstrating the best is doing exactly what we've been doing to maintain that trajectory. There are section 53 tariffs, which do two things: they help us domestically and also demonstrate the positive to the U.S. There's the “melted and poured” tool that we've been describing and the anti-circumvention changes that we have yet to do.

Certainly, if there is any sort of opening on a foreign pollution tariff or some other pollution measure at the border that the U.S. starts to signal, it would be our hope that we would step into that fulsomely and discuss, describe and negotiate with the U.S. one that's like a North American or at least a Canada-U.S. approach to this problem to do exactly what you're describing. We really hope that we do that.

● (1155)

Mr. Ryan Williams: Thank you, Ms. Cobden.

Mr. Behboodi, I'll ask you the same question.

Mr. Rambod Behboodi: In principle, given that the U.S. is our main market for these and many other products—75% of our exports go to the U.S.—of course we need to be aligned to the extent possible with the U.S. market framework. The challenge we have, as I mentioned, is that the security of access that we have to the U.S. market is not guaranteed. It is no longer guaranteed.

Ms. Cobden referred to the 2018-19 section 232 measures. We managed to get out of that. We managed to negotiate the Canada-U.S.-Mexico agreement. The hope was that we would be able to move beyond that now that the agreement is in place.

However, what we're facing since then is, number one, under the Biden administration, we weren't hit with tariff measures; we were hit with a $400-billion subsidy framework, which we then had to match. That in itself creates a framework that is challenging for Canadian businesses.

With President-elect Trump, even before he comes into office, we have threats of tariffs of 25% for whatever. Then, just yesterday, as I said, there was another discussion about subsidizing Canada, because of the trade deficit.

That security of access isn't there, which suggests to me that while in principle it's good to align ourselves with the U.S., it is perhaps time to start looking outside to other markets and trying to develop other markets. This is something that is really up to the private sector. It's not for governments to do, but we really do need to pay close attention to the fact that the secure access that we've had to the U.S. market may not be something that can continue.

Mr. Ryan Williams: Thank you, Mr. Behboodi.

I'll say this in conclusion to Ms. Cobden, if I may: I'd like to connect in the future to, in fact, put a strategy forward for those discussions with the U.S. That goes for all those who have given testimony today. I'd appreciate that involvement.

Thank you, Madam Chair.

The Chair: Thank you very much.

Thank you to our witnesses. We very much appreciate your valuable information.

We will suspend, as we have to switch to our other witnesses who are coming on board via video conference.

● (1155)

_____________________(Pause)_____________________

● (1205)

The Chair: I'm calling the meeting back to order.

Thank you very much.

We have with us now Andy Kubrin of Citizens' Climate Lobby, by video conference; and Aaron Cosbey of the International Institute for Sustainable Development, also by video conference. Welcome to you both.

Mr. Kubrin, I invite you to make an opening statement of up to five minutes, please. You have the floor.

Mr. Andy Kubrin (Volunteer, Citizens' Climate Lobby): Thank you, Madam Chair and honourable members of the committee.

My name is Andy Kubrin. I'm a writer, researcher and climate activist based in Calgary. I volunteer with Citizens' Climate Lobby Canada and the Calgary Climate Hub.

Through my work with Citizens' Climate Lobby, I learned about a policy called a “carbon border adjustment mechanism” or CBAM. As you are no doubt aware, it's a new development pioneered by the European Union.

Last June, along with other Citizens' Climate Lobby volunteers, I briefed my member of Parliament, Mr. Shuvaloy Majumdar, on the topic. Later, I wrote an article about the European Union's CBAM in Canada's National Observer.

A CBAM is basically a tariff levied on the embodied carbon in imported products. It has two purposes, to protect domestic producers from unfair competition from cheap carbon-intensive imports and to encourage other countries to implement their own carbon pricing policies.

No one likes taxes, but with proper design, this one can be a tax worth paying. A CBAM can level the playing field of international trade, promoting clean production everywhere. It can also lower emissions, which puts the brakes on global warming.

I won't try to describe all the complexities of CBAMs here—you have expert witnesses who can help you with that—but I will tell you that CBAMs pose a significant challenge to Canadian exporters and to the nation as a whole. Like many challenges, this one comes with an opportunity.

International trade makes up about two-thirds of our GDP. Our top trading partners are the United States, China, the United Kingdom, Japan and Mexico. If you total the trade with our individual European partners, the EU as a whole is our second- or third-largest trading partner, depending on which source you consult.

The EU introduced its CBAM in 2023 and began requiring importers to submit data on the embodied carbon in specific high-emissions products. In 2026, importers will start paying tariffs on the carbon content of these goods. The program will gradually expand until 2030, when it will cover all goods in the EU's emissions trading system.

Other nations are following suit, including our top partners. The United States is considering various policies. The United Kingdom expects to have a CBAM in place by 2027. Australia, Chinese Taipei, China and India are also weighing their options.

These countries are following Europe's lead for a reason. The European and United Kingdom CBAMs, and perhaps others under development elsewhere, provide a rebate for carbon pricing already paid. In this way, a CBAM becomes a virtuous circle, rewarding countries that reduce their emissions while discouraging freeriders. It turns carbon pricing into a competitive advantage.

There are a few ways Canada can take advantage of these developments.

One is to adapt our own carbon pricing system to capture the rebate available under CBAMs. That could mean modifying the output-based allocation currently available under our output-based pricing system. Our exporters would still pay a carbon price, but the revenue would remain in our economy instead of going to other nations.

The other thing we can do is implement our own CBAM. We would, of course, price the greenhouse gases in goods that we import to discourage carbon-intensive production in other countries. Revenues raised under our CBAM would be used to benefit Canadians. This step would protect Canadian industry and encourage other nations to do their fair share in emissions reduction.

These choices entail risk and trade-offs, and I defer to the experts who will advise you on these matters. A changing trade environment presents you with a challenge and Canada with an opportunity. It's a big challenge, but I'm confident your study will identify the best solutions.

Thank you, Madam Chair.

● (1210)

The Chair: Thank you very much, sir.

Mr. Cosbey, go ahead, please.

Mr. Aaron Cosbey (Senior Associate, International Institute for Sustainable Development): Thanks, Chair.

Thanks for the opportunity to speak with you today. I'm Aaron Cosbey, a senior associate with the Winnipeg-based International Institute for Sustainable Development. I also chair the Canada-based Commission on Carbon Competitiveness. I've worked for almost 15 years in Canada and internationally on the subject of border carbon adjustment—that sounds sad, actually—including over a dozen reports on the specific elements of the EU CBAM.

I'll speak to you today on two themes. The first is on the context for this session, which I argue is in fact a broader reality than just the EU CBAM and should compel us to focus on these questions. The second is on the ways in which Canada's industrial carbon pricing regime, the OBPS, relates to that broader reality.

First, on the context, the EU CBAM, as you've heard, is now in effect. It will start levying charges on an increasingly stringent scale from 2026 to 2034. It is the first border carbon adjustment regime to come into effect, but it will not be the last. The U.K. has already announced that it will have one in place as of 2027. Australia is in the final stages of consultation on whether it should have a similar mechanism. Chinese Taipei actually has one in law, but it's not yet enacted. Critically important, given that our energy-intensive trade-exposed sectors export overwhelmingly to the U.S., there are four different bills before the 118th Congress in the States that propose some type of border climate-based charge. Several of those bills will be introduced in the next Congress. Some look like they may find bipartisan support.

Moreover, it's not just a matter of border carbon adjustments. BCAs are just one of a suite of measures in the coming green wave that will restrict trade based on the carbon content of goods. Look at the EU's methane regulations, which will affect any gas exports. Look at the buy clean standards in U.S. public procurement. Look at deforestation-free product rules coming in the EU and proposed in the U.K. and the U.S.

These are all relatively recent measures. It's worth asking why the sudden rush of such policies. It is an inexorable trend. It starts with increasingly serious climate change impacts, which translate into increasingly serious climate change policies worldwide. When countries increase their ambition, they need to think about the competitiveness of their domestic firms vis-à-vis firms in other countries that don't face the same climate regulations. That leads us to trade-related climate measures. This is not a static situation. It's a trend. We will see more such measures.

Why does this matter to Canadian exporters? To state the obvious, it means that in our first-, third- and fifth-biggest trading partners, measures are being implemented or contemplated that will, one, punish producers of industrial goods with large carbon footprints, and two, reward national policy efforts to price carbon.

Let me break down those two dynamics a bit. First, the more GHG-intensive our production of steel, aluminum, cement and fertilizers, the more those goods will be charged at the border of any country with a border carbon adjustment or some other such measure. Fortunately, as Catherine Cobden and others have already told you, at the moment our production of goods like steel and aluminum is relatively clean, but the incentives still exist even for our clean producers. The more they can reduce their GHG intensity, the less they're going to pay. Second, measures like the EU and U.K. CBAMs are going to grant credit at the border for a carbon price paid in the country of export.

Let me turn now to how Canada's existing industrial carbon pricing, the OBPS, relates to all that. It helps in both respects. First, it provides incentives to reduce the industrial GHG pollution in those firms, which will lower the border charges payable for Canadian exporters. Second, it lowers the border charges again, because Canadian exporters will have already paid a carbon price. They will be credited for that.

Just to be clear on an important detail, the credit that the CBAM is going to offer will not be the full federal backstop price. To protect our firms against carbon leakage, the OBPS has output-based allocation, which lowers the average cost of carbon paid by the carbon firms. It's likely that this much lower average cost will be what gets credited.

● (1215)

In closing, let me reiterate that we will be seeing many more such measures, similar to the EU CBAM, that restrict trade based on the carbon content of goods. Our existing industrial carbon pricing scheme helps our exporters prosper in a world full of such measures, both by helping them reduce their GHG emissions and, therefore, face lower charges and secure more markets, and also by lowering the charges that are due to them based on the credit for a carbon price already paid.

Thank you. I look forward to our discussion.

The Chair: Thank you very much.

Mr. Jeneroux, you have six minutes.

Mr. Matt Jeneroux (Edmonton Riverbend, CPC): Thank you, Madam Chair, and thank you to both of the witnesses for joining us here today.

We had some testimony last week that again highlighted that the adjustments were first promised in 2020 and then were in the Liberal Party platform in 2021. Then there were public consultations in 2022.

Mr. Cosbey, were you consulted as part of those consultations in 2022?

Mr. Aaron Cosbey: I did submit formal comments on those consultations, yes, and informally I have consulted with a number of senior bureaucrats on what the shape of a border carbon adjustment might look like in Canada. I was also lead author on a report we produced that tried to dive more deeply into what a BCA for Canada might look like; there were a couple of reports, actually.

Mr. Matt Jeneroux: Okay, so your answer is that you were consulted.

Mr. Kubrin, were you consulted as part of those consultations on the policy in 2022?

Mr. Andy Kubrin: No, I was not consulted.

Mr. Matt Jeneroux: Mr. Cosbey, have you seen the results of those consultations from 2022?

Mr. Aaron Cosbey: We haven't. The government has yet to issue any response to the consultations it undertook.

● (1220)

Mr. Matt Jeneroux: Can you speculate as to why?

Mr. Aaron Cosbey: My speculation—and, of course, it is speculation—is that through those consultations, the government understood that a border carbon adjustment in Canada would be an incredibly complex tool to implement, and, moreover, that it would have to be—and I believe Ms. Cobden also made this point—done collaboratively with the United States in order to be a workable tool for Canada. That's not an easy prospect.

Moreover, if you'll let me speculate on one more thing, the existing systems of protection under the OBPS, the output-based allocation, are sufficient at the moment to protect the competitiveness of firms against carbon leakage. That may not be the case in the medium term or the longer term, but at the moment I don't think the government sees an urgency to implementing something like a border carbon adjustment, given the complexity that would be involved in that challenge.

Mr. Matt Jeneroux: Again, this was promised in 2020 and again in 2021, and there were consultations in 2022, but Mr. Cosbey has not seen any results from those consultations.

Through you, Madam Chair, going back to the witness we had before us, who I believe was from the finance department, we're hoping to get those documents and find out what those consultations looked like. He nodded in agreement at the time.

I will go back to you first, Mr. Cosbey. How important do you think it is that any future border carbon adjustment policy be harmonized with that of the United States?

Mr. Aaron Cosbey: It's critical. As Mr. Behboodi mentioned in previous testimony, 75% of our exports go to the United States. Moreover, any unilateral trade measure that Canada puts in place that affects U.S. exports to Canada is going to be met with a typical response from a trade partner that is infamous for its retaliatory capacity.

In plain language, if you put something like this in place without the co-operation of the United States, you screw up an intensely integrated flow of trade in goods back and forth across this border that would have negative implications for both countries.

Mr. Matt Jeneroux: I'll ask the same question of you, Mr. Kubrin.

Mr. Andy Kubrin: I don't have the global view of trade that my friend Mr. Cosbey has, so I'll pass on that. I don't think I can add anything of value to this current question. Thank you.

Mr. Matt Jeneroux: You don't have any opinion on whether this border carbon adjustment should harmonize with that of the United States. Is that correct?

Mr. Andy Kubrin: I do believe we need to harmonize with the United States on trade, but that's just a general view. I don't have the global knowledge of trade to say more than that.

Mr. Matt Jeneroux: If the incoming president does not have this on his agenda and we are here studying it with the potential recommendation to move forward on it, would you disagree with our moving forward on a border carbon adjustment policy, Mr. Kubrin?

Mr. Andy Kubrin: I believe we will need to adapt our trade policy to that of the United States, and to policies pursued by many other nations.

I am going to say that I do not know the sole, correct answer. It is a complex question. That's all I can say, but I thank you for your question.

Mr. Matt Jeneroux: Thank you, Madam Chair. I'm good.

The Chair: Thank you very much.

It's on to Mr. Sheehan.

Mr. Terry Sheehan: I'll be sharing my time with Vance, Chair.

To the witnesses, could you inform the committee what industries might benefit from CBAM? We've heard from the industries that have trepidation.

I'll start with Aaron, perhaps.

Mr. Aaron Cosbey: The Commission on Carbon Competitiveness, which I chair, just released a couple of reports, the first of which tried to understand which industries in Canada are most at risk of carbon leakage. Those are the ones that would likely be best protected by CBAM. We came out with a list of industries that includes iron and steel, aluminum, cement, nitrogenous fertilizers, pulp and paper, conventional oil and gas, oil sands and petroleum refining. We gave these a red-light, yellow-light or green-light rating.

The ones most at risk of leakage and therefore most likely to benefit from a Canadian CBAM are iron and steel, nitrogenous fertilizers, basic chemicals—I'm sorry, but I forgot to mention that the first time—and pulp and paper, with cement having an honourable mention, or yellow.

● (1225)

Mr. Terry Sheehan: I'll share my time with Vance now.

Mr. Ryan Williams: Thank you, Mr. Sheehan.

Mr. Cosbey, I want to get a bit more into the weeds, or a bit more granular on your comments with respect to utilizing a CBAM-type regime with the U.S. Of course, with that put in place, how is it we could strengthen our collective international trade performance?

Mr. Trump is on record stating that he looks at tariffs as a method of raising his finances over on the U.S. side. The unfortunate part of this is that a lot of it will be reliant on his own people being taxed on the products he puts tariffs on. This can very well be a mechanism for him to achieve the same goal, the only difference being that a lot of those tariffs would otherwise then be paid for by folks across the globe.

Can you comment a bit more on a direction we can take in dialogue with the U.S. to collectively—in the vein I just spoke about—strengthen our international trade performance, and to work more closely together versus farther apart?

Mr. Aaron Cosbey: Yes, that's an excellent question and top of mind for folks in this space.

Look, the incoming U.S. administration, as you said, believes in tariffs as the first go-to tool—well, first, second and third, really. Moreover, we don't expect to see a carbon price in the U.S. any time soon. Anything that tries to harmonize our approach with that of the States has to take into account those two fundamental starting points.

Where there might be some hope is in imposing, at the border, agreed-upon standards for the GHG intensity of products. Then no steel, or no cement, is allowed into Canada or the United States that was produced at a GHG intensity above *x*. Moreover, you could combine that with an element of the current bill before Congress, the clean competition act, which would potentially allow steel over the border above that standard but charge for it. There you have a way to accede to the penchant of the incoming administration to put in place charges at the border.

A system like that could work well in combination with Canada's OBPS. It can work well in the States, because it doesn't depend on having an existing carbon price for which you need to adjust, and it satisfies the geopolitical urges of the U.S. to ring-fence China and keep out high-intensity steel from other trading partners, including China.

Mr. Ryan Williams: Canada, right now—because of the ratified trade agreements we've put in place since 2015—has an economic population of over 1.3 billion versus our population of, say, 38 to 40 million.

When you look at the trade agreements and regimes we have in place with these different countries, do you find those advantageous in our discussions with the U.S.?

Mr. Aaron Cosbey: I wish I could say I do, but the inclination of the U.S. administration—and it's not just the incoming administration, but the U.S. administration over the last several terms—has been increasingly to disregard the multilateral system of trade rules when it suits them. They are increasingly a mercantilist nation, thinking of the U.S. first, in what I would argue is a short-sighted view, but that doesn't allow for much of an advantage in the way that it should in the kind of integrated trading system of which Canada is a part.

The Chair: Thank you very much.

We'll go on to Mr. Savard-Tremblay for six minutes.

[*Translation*]

Mr. Simon-Pierre Savard-Tremblay: Thank you, Madam Chair.

Both witnesses can answer this question in whichever order they like.

The 2020 interim report on the pan-Canadian approach to pricing carbon pollution indicated that the tools and policies used to date in Canada, under the current carbon pricing regimes, seemed to work to mitigate carbon leakage and competitiveness risks. However, the report did indicate that, even though the price of carbon will rise to $170 per tonne by 2030, additional measures could prove necessary.

What do you make of that assessment? I'd like to hear from both of you in turn.

● (1230)

Mr. Aaron Cosbey: Who is the question for?

Mr. Simon-Pierre Savard-Tremblay: As I said at the beginning and end of my remarks, the question is for both of you.

[*English*]

The Chair: Who would like to go first?

Go ahead, Mr. Cosbey.

[*Translation*]

Mr. Aaron Cosbey: I can go first.

[*English*]

I would agree with the findings of that report that the existing mechanisms for protecting against carbon leakage are adequate. Those mechanisms, to be clear, are the standards, the sectorally set standards within the OBPS, below which there is no carbon price due.

If you meet the standard, you pay nothing, and if you exceed the standard, you have to pay. You still have this marginal price, this high marginal price that incentivizes you to reduce your emissions, but your average price, your average cost of carbon, is nice and low.

The existing system works well. As you go out to $170 a tonne and as you have a tightening of those standards—we've put in law a 2% tightening of those standards—you start to lose that benefit.

My recommendation and the recommendation of the carbon competitiveness commission is that for the sectors that are most at risk of leakage—and not all sectors are equally at risk of leakage—you need to maintain a high standard, a very generous output-based allocation, in those sectors.

You still have the nice high marginal price. You still have the incentive to decarbonize, but you've got to keep the average cost of carbon low in those sectors. Moreover, in the medium and long terms, you need to be thinking about something like a border carbon adjustment or GHG intensity standards at the border, for reasons that I'm happy to go into in further depth. For now, the output-based allocations work.

[*Translation*]

Mr. Simon-Pierre Savard-Tremblay: What do you think, Mr. Kubrin?

Mr. Andy Kubrin: Thank you for your question.

[*English*]

I do not have anything to add, though. I respectfully cannot add any more.

Thank you.

[*Translation*]

Mr. Simon-Pierre Savard-Tremblay: I have another question. Whoever wants to answer can.

Are Canada's environmental standards and domestic emissions reduction policy sharply different from those of any of its trading partners, apart from China, of course? If so, should Canada move swiftly to introduce a border adjustment mechanism vis-à-vis any of those countries?

Mr. Aaron Cosbey: I can go first.

[*English*]

It's not so much really a question of the policies of the countries that are exporting to us as it is the actual GHG intensity of the firms in those countries that are exporting.

If I look at Indian steel, for example, Indian steel is extremely GHG-intensive. The policies in India are not so bad, but it's just the fact that they use more blast furnace—basic oxygen furnace—production, so it's very high-intensity steel.

Also, when and if we do put in place measures at the border that are designed to keep out that kind of steel, I strongly believe that it should be focused not on the policies of those countries but on the effect of those policies. The question is, is the steel clean? That's the fairer way to proceed, because there may be very clean producers within countries that have that policy. You don't want to punish those producers.

The Chair: You have a minute and 30 seconds.

[*Translation*]

Mr. Simon-Pierre Savard-Tremblay: Thank you.

Mr. Kubrin, do you have anything to add this time?

[*English*]

Mr. Andy Kubrin: Thank you for your question, but I have nothing further to add.

[*Translation*]

Mr. Simon-Pierre Savard-Tremblay: Again, this question is for both of you, as appropriate.

During his first term in office, Mr. Trump repealed more than 100 environmental laws. Now he is talking about getting rid of the U.S. Inflation Reduction Act during his second term in office, as well as the rule requiring coal-fired plants to capture 90% of their emissions within the next eight years.

How do you think that might influence the Canada-U.S. trading relationship?

● (1235)

Mr. Aaron Cosbey: I can start, if you like.

[*English*]

There is a good in this, and there is a bad in this.

The short-term good is that a lot of the incentives offered under the Inflation Reduction Act have been drawing investment away from Canadian clean technology and clean production processes toward the United States. If you abolish all those incentives stateside, you start having a greater availability of capital in Canada to invest in green technologies and green productions. That's the short-term benefit.

The longer-term cost, of course, is that if you have huge investment like that going into solutions like industrial heating, heat pumps and decarbonized steel, the solutions that are developed as a result of all that investment spill over into other countries as well; the United States is not hermetically sealed. We benefit from the lowering of costs that takes place as a result of all that investment.

So, it is a good story, and it is a bad story.

[*Translation*]

Mr. Simon-Pierre Savard-Tremblay: I'm not sure whether Mr. Kubrin has anything to add.

[*English*]

The Chair: Thank you very much.

Mr. Johns.

Mr. Gord Johns: I normally don't sit on this committee, but my understanding is that, a few weeks ago, this committee heard from Quebec foresters that the forest fires caused by climate change have had a much bigger impact on their operations than the U.S. softwood lumber tariffs.

Mr. Cosbey, can you speak about the cost of climate change?

I will highlight that this morning I met with the Canadian Federation of Independent Business, and they stated that the top concern from small businesses right now is rising insurance costs due to climate change. Climate change is what's provoking that increase. It went from being the concern of 55% of small businesses to now being the concern of 74% of small businesses, so we know that this is impacting small business as well.

Mr. Cosbey, if you'd like to comment....

Mr. Aaron Cosbey: We're venturing outside my area of primary expertise, but I never hesitate to step onto a soapbox. I think the Canadian Climate Institute has done excellent work that tries to quantify the costs of climate change to Canada specifically. Those costs are staggering, and they don't just consist of, as you have said, rising insurance costs for businesses and for homeowners, the direct costs of natural disasters, and the cost of lost livelihoods.

I'm coming to you from British Columbia. The mills that are shutting down in interior British Columbia are shutting down, at least in part and in large part, because of a lack of supply of timber. It's from forest fires, wildfires, and from the pine beetle, both of which are exacerbated by climate change. Climate change is not just an environmental issue. It's fundamentally an issue about the economic security of our country. I think that's why we're here. That is the urgency that impels measures like carbon pricing in Canada and in the EU, and it's what gives rise, then, to the border measures that try to make those measures more possible.

Mr. Gord Johns: Understanding the importance of the green transition, do you believe that Canadian firms that export environmental and clean technology goods and services should be prioritized for participation in Canada's trade missions and programs? If so, to which countries or regions should their participation in trade missions be prioritized?

I'll go back to you, Mr. Cosbey.

Mr. Aaron Cosbey: I strongly agree with that. We know what our centres of prosperity are in Canada, currently and historically, and that's going to change. Climate change changes everything. We are going to see, increasingly, a rise in the centres of sectoral excellence that give rise to prosperity in Canada. We already have more workers involved in renewable energy technologies and clean technologies than are currently employed in the oil and gas sector in Alberta and Saskatchewan. That trend is going to continue to increase.

Yes, we need to focus on those areas that can bring us prosperity in the future, in the global green markets of the future, because we're responding to the climate change policies of countries around the world when we think about what's competitive in our export streams. Those future centres of excellence should be part of our trade missions, and they should, as well, receive fundamental support from the Canadian government to foster their competitiveness. If I'm thinking about where you want to make those trade missions, it's probably not to our traditional partners, which would be the United States. I'm thinking in terms of not only Asian ones primarily, but also European customers.

• (1240)

Mr. Gord Johns: You're joining us from B.C. I don't know if you heard the first panel, but I asked a question around ITCs, in terms of the last year's fall economic statement, and around biomass, leveraging the economic and environmental benefits of waste biomass being converted for heat and energy, having a high potential decarbonization pathway and mitigating forest fires.

Can you speak about the importance of that, given that in the U.S. they are already doing this in their IRA and that they're a couple of years ahead of us?

Mr. Aaron Cosbey: Now we are really outside my area of expertise. I have non-expert concerns about the use of biomass in that way, just because I'm concerned about the sustainability of the base. However, if it can be sourced sustainably, in a way that doesn't impact the biodiversity and the regenerative capacity of our forests, then I think that's a sector deserving of our support, and ITCs are obviously one of the instruments we should be using in that respect.

Mr. Gord Johns: Mr. Kubrin, we've heard testimony today on how new climate regulations could affect Canada's international trade, but the impacts of climate change are much more than just regulations. Can you speak about the moral imperative of humans to address climate change?

Mr. Andy Kubrin: Yes, I believe that it's an overwhelming moral imperative, and we all have an overwhelming moral imperative to address climate change. Our entire way of life, our economy, our health and livelihoods, and our very lives are at stake. We must act.

Thank you.

The Chair: That's the conclusion of that round.

We have to do some committee business, so I will suspend so that we can go in camera.

Thank you to our witnesses. It was very much appreciated.

We are suspended.

[*Proceedings continue in camera*]