



Cap and Trade

A Financial Review of the Decision to Cancel the Cap
and Trade Program

fAO

Financial
Accountability
Office of Ontario

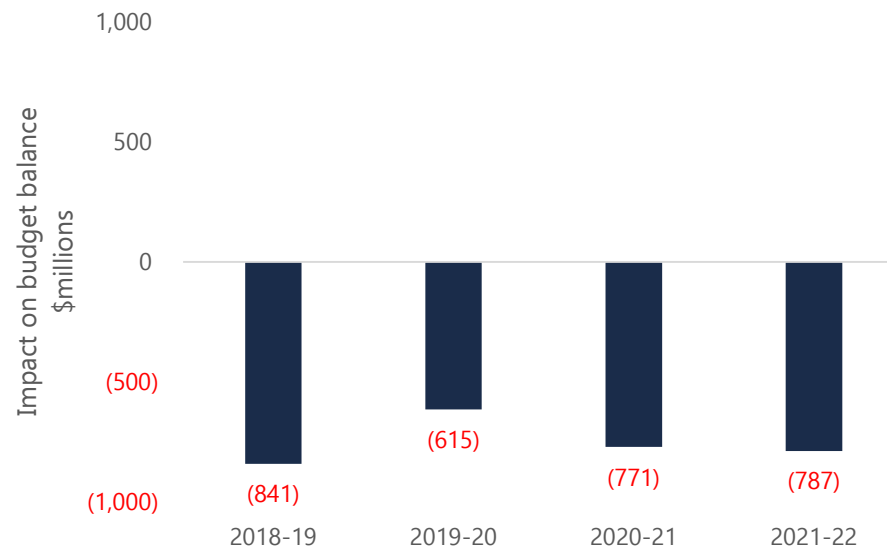
Background

- Ontario's cap and trade program began on January 1, 2017 and was a central part of the Province's plan to achieve its emissions reduction targets.
- In July, 2018 the Province ended the cap and trade program and introduced Bill 4, the Cap and Trade Cancellation Act, 2018.
- This report:
 - estimates the impact to the Province's budget balance; and
 - compares the financial impact on households and businesses of the cancelled cap and trade program against the federal government's proposed carbon pricing plan.

Budgetary Impact to Ontario

Impact on Budget Balance

- The FAO estimates that the Province's annual budget balance will worsen by a total of \$3.0 billion over fiscal years 2018-19 through 2021-22.



Impact on Budget Balance

- The loss of auction revenue is greater than savings from cancelled programs because:
 - Not all spending programs have been cancelled
 - The Province will incur wind down and compensation costs

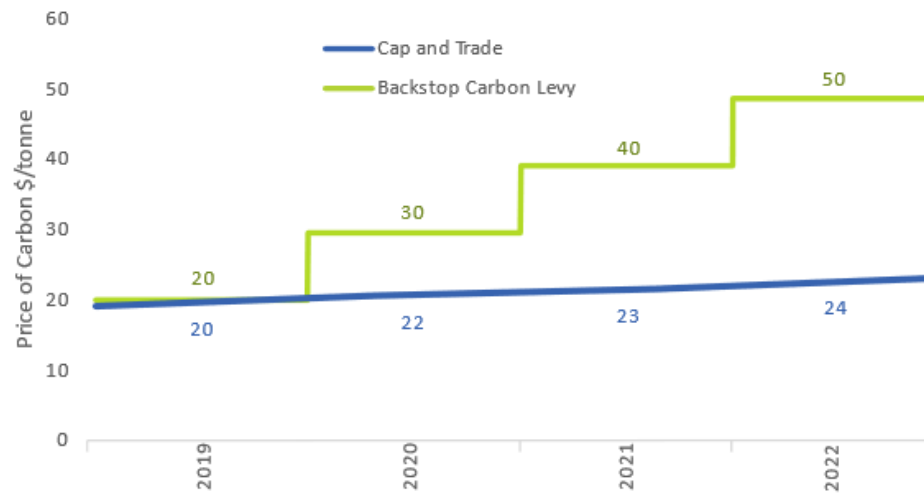
Impact on Budget Balance

\$ millions	2018-19	2019-20	2020-21	2021-22	Total
<u>Revenue</u>					
<i>Loss of Auction Revenue</i>	-1,507	-1,923	-1,889	-1,912	-7,230
<i>Impact on Federal Transfers</i>	r	r	r	r	r
Total Revenue Change	-1,507	-1,923	-1,889	-1,912	-7,230
<u>Expense</u>					
<i>Savings from Cancelled Programs</i>	-1,271	-1,308	-1,118	-1,125	-4,822
<i>Program Wind Down Costs</i>	600	0	0	0	600
<i>Compensation for Allowance Credits</i>	5	0	0	0	5
<i>Other Potential Legal Liabilities</i>	r	r	r	r	r
Total Expense Change	-666	-1,308	-1,118	-1,125	-4,217
Impact to Budget Balance	-841	-615	-771	-787	-3,013

Household and Business Impact

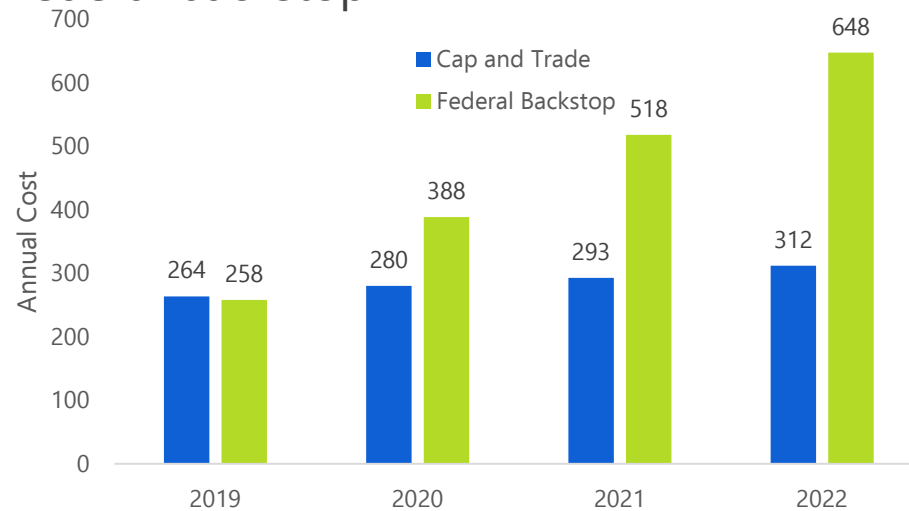
Transition to Federal Backstop

- Beginning in 2019 Ontario will become subject to the federal carbon pricing backstop
- Backstop price of carbon will be higher beginning in 2020
- Backstop will also generate more revenue



Impact on Households

- Carbon price affects the price of fuels which increases costs to households and businesses
- Households will bear higher carbon pricing costs under the federal backstop



Impact on Households

- Net impact depends on how revenue is used
- Federal government has not indicated how revenue will be recycled
- Cap and trade allocated 1/3 of revenue to programs that remit directly back to households

Sector	Allocation
Households	640
Government	1,020
Business	320
Total	1,980

- Carbon dividend would more than offset costs to over 80% of Ontario households.

Impact on Business

- Businesses have expressed preferences for both cap and trade and carbon levy systems.
- Impact on individual business depends on emissions intensity and trade exposure.
- Both programs provide transitional support to emissions intensive and trade exposed businesses
 - Cap and trade free allowances and use of revenue.
 - Backstop Output based pricing system covers industrial emitters.

Thank you

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