Citizens' Climate Lobby
Citizens' Climate Education

January 28, 2019

Dear Environmental Assessment Secretariat, Trade Agreements and NAFTA Secretariat (TCT) at Global Affairs Canada

Re: CUSMA Initial Environmental Assessment

Investment, finance, trade, and commerce in the Main Street economy are not zero sum games. They are not finite proverbial pies where any gain is necessarily a loss for someone else. The highest value aim in trade and commerce is to generate new wealth by creating new value for all involved.

The North American Free Trade zone — as defined by NAFTA and the CUSMA, encompassing Canada, the United States, and Mexico — provides an opportunity to bring half a billion people into a sustainable economy of inclusive prosperity. This depends on forces that shape overall economic potential.

Climate disruption is the most serious, all-pervading, and costly market failure in history. Prices in the status quo economy do not tell the truth about long-term costs of burning fuels whose emissions accumulate in the atmosphere and trap heat. Climate change impacts, and related areas of risk, are becoming unaffordable for public institutions, private investors, and insurers.

Market failures create bubble economies of artificially inflated value. Bubble economies are followed by corrections, which are often chaotic and destructive of real value in people's everyday lives. We need clear market signals, pointing the way to sustainable future value, to extricate ourselves intelligently from this unprecedented market failure.

The most straightforward, efficient, high-value way to set clear market signals is to put an explicit price on carbon-emitting fuels, upstream — at the source — and to return the revenues to households. Such a policy covers the whole economy, and ensures increased household income can meet pass-through costs wherever they meet the consumer. This ensures unaffordable negative externalities are internalized, so market prices tell the truth about cost, risk, and value.

Canada's federal backstop carbon pricing policy reflects this model. The Energy Innovation and Carbon Dividend Act, introduced in the U.S. House of Representatives as H.R. 763, would give the U.S. this model. Mexico's carbon pricing plan, which was designed to operate at the molecular level — to ensure a fee is paid for each molecule of GHG in circulation — could apply elements of this strategy as well.

Such a boost to household incomes would allow North America to rapidly accelerate the transition to low-carbon enterprise. Each nation can establish its own policies, and yet align across borders. Alignment can be facilitated by border adjustments that harmonize prices in North America and allow the three nations to jointly enforce appropriate pricing levels through trade arrangements with other trading partners.

Including household dividends in all three nations' carbon pricing plans will raise household incomes and drive ongoing economic growth. Ensuring the upstream carbon price rises steadily, from a low initial price, by an optimized annual rate of increase, will lock in those gains, while preventing hundreds of thousands of premature deaths, clarifying the optimal trajectory for business model transition, and efficiently reducing emissions.

Analysis of the specific details of the carbon dividends proposal now before the U.S. House of Representatives shows it would reduce emissions rapidly enough to be in line with the science-based target of keeping global warming to no more than 1.5°C.

Border adjustment policies can allow fiscal authorities and central banks to align pricing levels and give Canada, the U.S. and Mexico enhanced bargaining power in all trade negotiations with all other partners. The scope of the joint North American economy is such that such a plan, with smart border adjustments, would create a global incentive to follow suit, making the transition still more efficient and affordable for the three nations.

On January 1, 1994, the North America Free Trade Agreement (NAFTA) went into effect. Under NAFTA, Canada, the U.S. and Mexico have an obligation to protect the environment.

The North American Agreement on Environmental Cooperation was negotiated and implemented in parallel to NAFTA. It requires that each Party ensures its laws provide for high levels of environmental protection without lowering standards to attract investment. Each Party agreed to effectively enforce its environmental laws through the use of inspectors, monitoring compliance and pursuing the necessary legal means to seek appropriate remedies for violations. Each Party must also provide a report on the state of its environment, develop environmental emergency preparedness measures, promote environmental education, research and development, assess environmental impacts and promote the use of economic instruments.

Under NAFTA Article 604: Export Taxes parties were allowed to maintain duties, taxes or other charge on the export of any energy or basic petrochemical good to the territory of another Party if the duty, tax or other charge applies to the exports of any such good to the territory of all other Parties and any such good when destined for domestic consumption.

In conclusion, we recommend that harmonization of carbon pricing and climate resilience between Canada, the U.S. and Mexico be considered in the CUSMA Initial Environmental Assessment. This would be in alignment with what was done previously under NAFTA.

Thank you for considering our recommendations.

Sincerely,

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