Remarks to the Standing Committee on General Government regarding Bill 172 (An Act respecting greenhouse gas)
April 4, 2016

Alex Gill
Executive Director, Ontario Environment Industry Association (ONEIA)

CHECK AGAINST DELIVERY

Ladies and gentlemen, on behalf of Ontario's more than 3,000 environment and cleantech companies, I would like to thank the committee for the opportunity to appear here today. I know you have been hearing from a broad range of stakeholders today and will continue your hearings on Wednesday, so we are pleased to offer the perspective of the companies that will be developing the technology, the products and the services that will help the Ontario economy make its transition to a lower-carbon future.

Like you, and like the other stakeholders you will hear from, companies of the Ontario environment Industry Association are very conscious of the impact that introducing a cap-and-trade system may have on Canada's largest economy. And we are also very conscious of the opportunity here. The challenge that the Ontario economy is facing is one that economies all over the world will be facing in the coming years. We have all seen the future – and it is a low-carbon future – so we are in a race to develop the right mechanisms to make that happen.

We are very encouraged by the all-party consensus on pricing carbon. Over our 25-year history, we have been consistent that smart regulation – not regulation for the sake of regulation – is what drives the businesses of the future. Our first position on carbon came more than ten years ago and was a simple one: We are agnostic on the mechanism – carbon tax or cap-and-trade – but we are firm on the need. We need government to price something that normal market mechanisms will not (what the economists will call an "externality") so that the market can do what it does best – find the lowest cost, most effective way to meet the need.

We have thousands of companies in Ontario that are waiting to be willing partners to help different sectors of our economy transition to a low-carbon future. They just need the right pricing signals in order to compete to make that happen.

We have provided the members of the committee with a copy of our response to the proposed cap-and-trade mechanism. This document was developed by a task force made up of a diverse range of companies from across Ontario and highlights many of the areas that we believe require attention. While we know most of the details will come in the regulatory phase regulations, I am going to use my brief time before you today to draw your attention to following three (3) key things. And I will acknowledge in advance that I am going to offer some frank talk here – because getting it right is more important than a tweet-able quote or a sound bite:

1. **The economic opportunity is real and the benefit will flow to the jurisdictions that get it right.**
   It is important that policy makers on all levels realize that the economic opportunity is real, it is present, and the competitive clock is ticking. Jurisdictions all over the world are rushing to put mechanisms in place to price carbon and those mechanisms, if they are designed correctly, can spur a tremendous leap in economic productivity and in the creation of new jobs.

   These signals send clear messages to entrepreneurs in this space – but this will require a commitment to change, not merely compliance with a new system.

   If you are asked to explain the difference between commitment and compliance, as the joke goes, in a bacon and egg breakfast, the chicken is complying but the pig is committed.

   We do not need mechanisms that are put in place just to comply with international agreements. We do not need feel-good mechanisms that allow for a convenient sound bite. We do not need a minimal mechanism that will have little actual impact on our carbon emissions. We need a mechanism that will work. If we do not get this right, the jurisdictions around the world that do get it right will eat our lunch, and our breakfast and dinner as well.

   We need to be sure that this mechanism is not merely a tool that will see its revenue disappear into general government funds or displace spending we would have to do anyway. We are very pleased with the commitments from the government and from the opposition parties that they do not want this to be the case, but we would remind you that we all need to be vigilant about this. Governments the world over have a history of designating funding for specific purposes but, over time, we have seen those funds shift and disappear into general revenues – and we do not need that to happen here.

   We also do not want to place such a minimal burden on companies so that they can continue with business as normal, but with a higher operating cost. That outcome would be in no one's interest. This will make our emitters less competitive and would have little impact on our emissions profile – unless, of course, it drives them out of business. We need fundamental changes in the market mechanisms that bring these firms to an entirely new level of environmental efficiency and, by extension, an entirely new level of competitiveness.

   So to reiterate, this is not window dressing, this is a serious opportunity. Let's treat it as such.

2. **We need to understand the nature of the jobs that can be created**
   Ontario – indeed much of the developed world – has a job creation challenge. We are creating more wealth, but we are not creating jobs in the way we used to. We need to understand that the cap-and-trade system – and the

whole clean economy – can be an important asset in meeting that job challenge.

A lot of people will point to the "new economy" – specifically the tech and IT economy – as examples of what we are transitioning into. "Don't worry," many people say, "The jobs we lose in auto plants and paper mills we can replace in the tech sector." While the tech sector is creating jobs and wealth, I'm going to offer you an example to say that tech-led job creation is not the only answer to our problems.

Canada's biggest private sector employer is George Weston Limited. It employs about 200,000 people and is worth about $15-billion. If one of us wanted to buy it today, if we had $15-billion in our pocket we could do so. Weston is a good company (they are not an ONEIA member for the record) but it is an old economy company.

I want to contrast that with a "new economy" company. I think most of the people in this room have a smart phone – and one of the stars of the smart phone app sphere was Instagram. It's a photo-sharing app and it had 13 employees when it was acquired by FaceBook. And the value of that company? $1.4-bilion. It has a valuation of one-tenth of Weston Group but with just a fraction of those employees.

Now that's not the case with all tech companies, but it is a concern. Our challenge is that with an increasingly tech economy, we are creating wealth but not a corresponding number of jobs.

But I am happy to report that the jobs created in the environment and cleantech sector are a little different. Already, more than 70,000 Ontarians work in this sector, and with cap-and-trade, we should see a significant expansion of this number. Our last survey of our members showed that more than 75% planned to hire new staff in the coming year. And the jobs created in this sector are largely local, and they are largely "sticky."

These jobs are "sticky" because, for most of them, it's very difficult to outsource them to other countries. They are local because the solutions to a great number of environmental challenges have to be dealt with locally. They create local jobs – whether it is in the physical work of separating organics, recycling materials and building energy storage systems or the knowledge work of designing new and custom approaches that will work with Ontario companies.

Two great examples of the many I could cite from the ONEIA membership would be Walker Industries in Niagara Region and Fielding Chemical Technologies in Mississauga. Walker's environmental group takes materials out of the waste stream and turns them into new, usable products. They are turning building waste into mulch, organics into fertilizer and compost, and what we used to call garbage into energy. And when I checked their website today, Walker Industries had postings for 12 jobs and a nice notation on the side that says, “we’re hiring all the time.”

Fielding Chemical, for its part, takes things we used to burn, landfill and ship offshore and turns them into usable products. The next time you fly out of Pearson Airport on a wintery day like this they will spray de-icer onto your plane. That fluid is collected in a pad under the plane and sent to Fielding where they turn it into a new product – and that is just one of the many things they do.

Our challenge with cap-and-trade is to create many, many more companies like those across Ontario. Companies that help us clean our environment AND generate well-paying, local jobs. So unlike other options, the environment and cleantech sector is a great place to create work for Ontarians and technologies and approaches that the entire world can use.

3. **Understanding the nature of the companies in the environment and cleantech sector**

The third and final thing I want to draw to your attention is the nature of the companies in our sector and how they have different needs than our traditional economy. If we are to better support job creation and growth that these companies can provide, policymakers need to understand the companies that we are trying to help.

Data from both the US and Europe say that since the 1980s, the majority of jobs have been created by entrepreneurs in the SME sector. Some traditional employers have increased their payrolls; others have decreased, with the net result that what we consider our “major” employers have been treading water while smaller, more nimble companies have been responsible for most of our job growth.

That is definitely the case in the environment and cleantech sector, but with one important proviso: While an SME in the traditional economy is classified as 500 employees or fewer, in the environment and cleantech sector, the vast majority of companies have 50 or fewer employees.

That is a good thing, as there is a tremendous opportunity for growth. But it is a challenge because the mechanisms that we have traditionally used to encourage growth don’t work so well with small firms.

Typical government programs, for example, impose an opportunity cost on any business that wants to access them. If you are a company with 20 employees, you would have to assign one or two of them to do the paperwork, make the calls, and complete the application in order to access a program. Taking 5-10% of your workforce offline for even a few days is a huge burden for a small company – whereas for larger companies it’s not a big deal. We have to be conscious that whatever programs we put in place have to be tailored for this reality. We have too many examples of programs that were undersubscribed or were accessed primarily by larger companies. We do not need that to happen with respect to the funds from cap-and-trade that will assist companies in making the transition to a low-carbon future.

This is also a good opportunity to remind all parties that outcome-based regulations, strictly enforced by government, are often the best way to ensure environmental protection and encourage innovation. Outcomes based on measurements and standards that are enforced equally by a regulator send a powerful signal to an emitter ("current business practices have a cost") and a powerful signal to entrepreneurs and innovators ("find a way to mitigate this for the client and you can make a lot of money here and elsewhere!").

So to reiterate: We need to understand this is a significant challenge that we can meet if we a) understand the nature of the job challenge and b) understand how companies in this sector can help us meet this challenge.

I will leave you with one final observation.

If you have been following the news lately, you will know that Tesla Motors has pre-orders for its Model 3 of more than 275,000 units. More than a quarter of a million people have put money up for something they can't even touch right now.

Lost in this story is the fact that there is a reason that Tesla was founded in northern California. There is a reason that we may be using Tesla technology for the next 100 years.

Starting in the 1960s, California led the world in progressive car emissions regulations that then became the standards for the world – but this regulatory climate sent a powerful signal to entrepreneurs in that state: "This is only going to get stronger, the world is going to follow, so there is money to be made in this area."

And at the same time we had entrepreneurs in Silicon Valley who were looking for new opportunities, and out of the hundreds and thousands of companies that came into this field emerged Elon Musk and Tesla.

Well, Ontario isn't California – although we could certainly use their weather. But look at what we already have. We have one of the world's best clusters of environment and cleantech firms. More than 50% of Canada's cleantech companies are here. They are primed. They are ready. And we are about to introduce a regulatory mechanism that – if we get it right – will send a powerful signal to those companies and the entrepreneurs who run them: "there is money to be made in carbon transition."

If we get this right, in 20-30 years time, we could have companies all over the world using Ontario technologies. We could have our province on the forefront of a change we know the world has to make. We could have created our own Tesla – or several of them – in the carbon reduction space. Or, we could have a market of alsorans, where other markets lead the world and are creating the jobs we should have created here.

I know which future I want, and I trust you do as well.

We thank the committee for its time, and we welcome any questions you might have.