Trade impacts of Canada's leadership in reducing emissions: Federal standing committee presentation

December 10, 2024

BLG senior counsel, Rambod Behboodi, was invited to appear before the House of Commons Standing Committee on International Trade on Dec. 9, 2024, to share his thoughts on the potential trade impact of Canada's leadership in reducing greenhouse gas emissions. The following is his presentation, with French sections translated into English.

Good morning, Madame 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: "reducing emissions" and "trade impacts." I will conclude by talking about Canada's leadership.

Who am I?

My name is Rambod Behboodi, and I am senior counsel at the law firm of Borden Ladner Gervais LLP (BLG).

For the last 32 years, my practice has focused on international trade law and policy.

- As a 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 with respect to 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.

Reducing emissions

I now turn to the first of the two substantive issues: *reducing emissions*.

Why should we?

Simply because 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.

And so we have to change the way we do things.

Trade impacts

Qu'est-ce que cela signifie en termes commerciaux?

Dans le monde du commerce, nous parlons de scénarios gagnant-gagnant. Et je suis ici pour vous dire que si nous jouons bien nos cartes — et le Canada a une excellente main — nous avons toutes les raisons de penser que nous, nos partenaires commerciaux et la planète en sortirons tous gagnants.

C'est ici que deux concepts importants méritent d'être mentionnés.

[What does that mean in trade terms?

We, in the world of trade, talk in terms of win-win scenarios. And I'm here to tell you that if we play our cards right — and Canada has an excellent hand — there is every reason to expect that we, and our trade partners and the planet, will all come out as winners.

This is where two important concepts are worth mentioning.]

The first is "**externalities**".

Imagine your neighbour is in the middle of major renovations — and he dumps all of the construction debris on his front lawn. It's an eyesore. And possibly a health hazard, if like me, you're allergic to dust.

You go to him to suggest that perhaps the debris should be landfilled, and he replies: "It's my front lawn." And, "You know how much landfilling costs?"

We call that a "negative externality" — 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.

Now, no one is saying "ban construction." But we should expect that the person creating the debris will have it removed — and assume the costs.

Il en va de même pour le deuxième concept, la « **tarification du carbone** ». Si vous, en tant que consommateur, saviez quel est l'impact réel des émissions de carbone, vous seriez prudent dans vos habitudes de consommation. Dans un marché libre, comme le nôtre, les prix sont le meilleur moyen de transmettre l'information au consommateur et de transférer les coûts là où ils doivent être payés.

Nous pouvons faire tout cela chez nous. Mais nous savons que ce n'est pas suffisant. C'est là qu'entrent en jeu les répercussions commerciales.

Lorsque les prix associés à la production de biens dans un pays sont élevés — à cause, par exemple, de la tarification du carbone — les entités commencent souvent à envisager une délocalisation pour des besoins commerciaux. Le résultat est une augmentation des « fuites » de carbone, c'est-à-dire une délocalisation de la production vers un pays exportateur qui a des politiques climatiques et des systèmes de tarification du carbone moins stricts.

Ça n'aide pas — ni au commerce, ni à l'environnement, ni à la légitimité des mesures contre le changement climatique.

[And so it is with the second concept, "carbon pricing." If you, as the consumer, know what the real impact of carbon emissions is, you will be prudent about your consumption patterns. And every economist will tell you, in a free market, prices are the best means of transmitting information to the consumer and transferring costs to where they belong.

We can do all of this at home, but we know that that is not enough. This is where the trade impacts come in.

It's a natural functioning of the market that where there are high prices associated with the production of goods in one country, entities often begin to consider a relocation for business needs. The result is that there will be an increase in carbon "leakage," that is, a relocation of production to an export country that has less stringent climate policies and carbon-pricing schemes. This does not help anyone — not trade, not the environment, and not the legitimacy of climate change measures.]

This is how we arrive at Border Carbon Adjustments, or BCAs. More on that later.

What about Canada's leadership?

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 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 full Standing Committee on International Trade meeting for Dec. 9, 2024, including Rambod's presentation and the Q&A that followed, is available as a ParlVU recording. To learn more about carbon pricing, carbon leakage and the impacts of climate change policy on Canadian exports, read BLG's article, Carbon pricing or depricing? Global implications of carbon measures in Canada.

By

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Expertise

International Trade & Investment, Climate Change

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