Canada needs to pay more attention to the EU's new climate plan

Key measures could severely impact major industries, like auto, steel

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In a summer dominated with flooding, fires and deforestation, one headline stood out from the rest.

The European Union announced one of its most ambitious climate change plans to date: Fit for 55, the roadmap the 27 member countries would take by 2030 to reduce collective emissions by 55 percent of 1990 levels and reach net-zero emissions by 2050.

Ursula Von Der Leyen, the president of the European Commission, boasted to the Globe and Mail that EU countries are the "very first ones to put a concrete road map on the table."

The plan outlines a series of aggressive policies, including aviation and carbon border taxes, wide expansion of renewable energy through the Bloc and tighter emissions limits for cars.

What hasn't been considered on this side of the Atlantic is how the plan, if approved by member states, could drastically shift several key Canadian industries, like trade in automotives, steel and iron.

As the election reaches its final few weeks, it's time to figure out how the EU's climate policy could change things for Canada and what, if anything, prime ministerial hopefuls are doing to meet the challenge.

EU climate plan signals shift in international auto sales

One of the European Union's most ambitious goals is to tighten emission limits for and, eventually, ending the sale of petrol and diesel-running cars by 2035.

If the plan is adopted, it could mean a massive shift in the global sale and production of petroleum and diesel vehicles. The European Union imported $175 billion in automotive goods in 2018, making it the second-largest market in the world, after the United States.

In 2018, Canada sold $828 million in automotive products to the European Union, marking an 89 per cent year-over-year growth in that market. (It's not clear how many sales were zero or low emissions vehicles).

Last September, representatives from Canada and the European Union raised the issue of improving electric vehicle trade. Importing more European-made electric cars, a briefing note from the meeting said, would provide Canadian citizens with more choice for electric vehicles and help the provinces meet their emissions targets.

Yet, at the latest Canada-EU summit, nothing was set in stone - except a vague, shared promise to collaborate on a "just energy transition."

The question then becomes whether Europe will be taking in Canadian-made green electric vehicles to support their Fight for 55 goals, or will they be making their own?

It might depend on which party takes over the majority of seats in the House of Commons.

Both the Liberals and Conservatives want to position Canada as a world leader in the global battery economy. The Liberals promise to build an "end-to-end, sustainable battery supply chain," generate multi-million dollar investments in mineral processing and create upskilling programs to gain the most from what they say is a global race that Canada has "all the right ingredients" to win.

Aside from these commitments, the Liberal plan focuses on more ways to get Canadians to buy more domestic electric cars.

The Conservative plan diversifies investments in electric vehicles, with some of a $1 billion pot going towards parts manufacturing and emerging hydro technologies.

Whoever wins Canada's upcoming election will have some catching up to do in order to keep the country's competitive advantage alive. Europe's electric car sales are projected to surpass one million for the first time in 2021, and reports say they are also in the running to control a major share of the world's battery production.

Carbon border tariff poses unknown threat to Canadian steel, iron

Another noteworthy part of the European Union's new climate plan for Canada is the introduction of a carbon border adjustment mechanism (BCA) by 2023: a tax on imported goods based on how emissions-intensive they are.

If Canada doesn't implement a carbon tariff like the EU's, there's a risk of carbon leakage: offloading greenhouse gas emissions to foreign countries where goods are not regulated, according to a report from the International Institute for Sustainable Development (IISD).

Six emissions-intensive industries would be immediately affected by the EU's policy: iron, steel, cement, fertilizer, aluminum and electricity generation.

Canada produced an estimated $122 million in exports to the EU in all six of these categories in 2019, making up roughly one per cent of total exports to the EU, according to an analysis done by business law firm McMillan. Of these imports, $118 million was from iron and steel alone.

To mitigate industry damage, experts at IISD and McMillan recommend that Canadian policy makers negotiate with the European Union to decide how emissions will be measured, and to set best practices.

Dialogue has to start quickly, too, the IISD notes, because the EU's timelines are very tight.

Chrystia Freeland, Canada's deputy prime minister, tweeted in July that she met with her EU counterpart to talk about the carbon border adjustment - but no other details about the meeting were shared.

It's also not clear whether the former Liberal government would have adopted an adjustment policy at all. The only mention of it, from their end, is a subhead in the 2021 federal budget, acknowledging that consultations with "like-minded partners" were underway before the election call.

The Conservatives, on the other hand, don't state their approval outright, but pledge to study it if elected.

EU plan should be high priority for next government

It's clear that Canada should be preparing itself for some major changes if Europe's Fit For 55 plan is approved by the European Commission.

Yet, so far, there’s been little mention of how this plan will affect Canada, and scarce information from the former Liberal government about how, if at all, they’ve been preparing the industries highlighted in this piece for it.

Mitigating the effects of the EU plan should be high on the next prime minister’s list, whoever they will be.

Otherwise, Canada might not just lose the so-called arms race for green technology, but possibly see more vulnerable industries bottom out.