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Increasing the Resilience of Carbon Pricing Policies in Canada: A National Framework (Summary)

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Summary

Since the mid-2000s, climate change policy in Canada, especially the use of market-based instruments has developed mainly at the sub-federal level. Quebec implemented a first modest carbon tax in 2007, while Alberta launched the same year an intensity-based emissions trading system. It was followed by British Columbia's decision to implement a revenue-neutral carbon tax in 2008. The Quebec's carbon tax was eventually replaced with an emissions trading system, launched in 2013. Manitoba also adopted a narrow-based carbon tax on coal in 2011. Although Ontario has been considering the adoption of emissions trading, and now is reconsidering it through public consultations, it has not been implemented yet. In such a policy landscape dominated by the provinces, is there a role for the federal government? This report contends that there certainly is. It is now too late to adopt a federal carbon pricing policy that would entirely replace existing provincial initiatives. However, the federal government could nonetheless work in collaboration with the provinces to make sure that all significant Canadian emissions are covered by a carbon price. For that purpose, Ottawa could create carbon pricing mechanisms that would apply to provinces that have yet to adopt such policies or to the sectors that are not covered by existing provincial carbon pricing policies. For instance, two national carbon pricing mechanisms could be created, one for the transportation sector (ex. a carbon tax on fuels) and one for industrial processes and electricity generation (ex. a cap-and-trade system). Provinces that have not adopted any carbon pricing mechanism or adopted instruments that cover only one of these sectors could either collaborate with the federal government to see these policies implemented in their jurisdiction or adopt their own comprehen-

sive carbon pricing policies. Of course, provinces that have already adopted similar policies covering the near totality of their emissions (ex. Quebec) should be completely exempted from any new federal carbon pricing mechanism. Other provinces, that have adopted carbon pricing but only for some sectors would receive a partial exemption for these sectors (ex. British Columbia for the transportation sector and Alberta for industrial processes and electricity generation). Although harmonization of existing Canadian carbon pricing policies will be very complex, given the important differences among carbon pricing mechanisms implemented so far by the provinces, such a national framework would be a first step in that direction in making sure that most (if not all) Canadian emissions are effectively priced, which help address crucial issues such as carbon leakage and distributive fairness among provinces.

Policy Recommendations

In order to increase the resilience of existing Canadian carbon pricing policies and their effectiveness and to support their development, provincial and federal governments can adopt several measures. Including the following actions:

Provincial governments

1. Implementing complementary policies, to accelerate the adoption of low carbon technologies. While provinces such as British Columbia and Quebec would do well to focus such policies on the transportation and industrial sectors (especially energy intensive trade exposed industries); provinces where emissions related to electricity generation are high, such as Alberta, should focus policy action there.
2. Complementary policies should provide assistance to industries and

groups that will be the most impacted by the implementation of carbon pricing mechanisms. They should be designed in anticipation of potential negative policy feedback regarding MBIs, which could create political pressure to suspend their implementation.

3. In cooperation with the financial sector, provinces implementing emissions trading systems should support the creation of climate exchanges and a secondary market for carbon allowances. Such exchanges would regroup emission credits buyers and sellers, with the objective of lowering transaction costs associated with the secondary market and providing transparent information on transactions.

4. Provincial governments that have implemented market-based climate policy, including Alberta and British Columbia, have sometimes adopted an unilateral carbon pricing mechanism. Such provinces should engage with other governments to expand the scope of their policy and create opportunities to link their carbon pricing mechanisms with other similar initiatives. Moreover Ontario, British Columbia, and Manitoba have already invested considerable time and effort in the development of emissions trading regulations as part of the Western Climate Initiative (WCI) framework. Implementing these regulations would radically increase the scope of the WCI, strengthening the most comprehensive emissions trading system implemented in North America to date and contribute to address carbon leakage concerns.

5. Although the prospect of successful international linkages outside the WCI framework appears limited for Canadian provinces in the present context, the current UN climate change negotiations leading up to Paris 2015 is an opportunity for such subnational carbon pricing mechanisms to be recognized. Linkages between subnational, national, regional, and international initiatives at this occasion are considered by many to be crucial for the development of a bottom-up approach to market-based climate policies.

Federal government

1. Although the opportunity to implement a single national carbon pricing mechanism has now passed, the federal government could nonetheless adopt, in a consultation with the provinces, a national framework to support provincial, market-based climate policy.
2. As part of the national framework, the federal government could provide additional resources to provincial governments to develop MBIs and complementary policies.
3. The federal government could also offer a choice to provincial governments to either (i) adopt MBIs that cover their industrial, electricity generation, or transport related emissions or (ii) cooperate with Ottawa in implementing federal carbon pricing mechanisms for these sectors in their province.
4. Quebec, which has already adopted a comprehensive emissions trading system covering both transportation and industrial emissions, would be exempted from new federal carbon pricing policies?though, of course, the Quebec government should continue to provide assurances that its climate policy is effective.
5. Provinces such as Manitoba, Alberta, and British Columbia would receive partial exemptions, as they have already adopted MBIs covering at least one sector. However, the federal government could offer to implement complementary carbon pricing mechanism for sectors not currently covered by existing policy including: Alberta's transportation sector, British Columbia's industrial sector, and Manitoba's transportation and industrial sectors. Others provinces, including Ontario, Saskatchewan and the Maritime Provinces would not receive any exemptions and could either cooperate with the federal governments or develop their own MBIs, preferably in the framework of already existing multilateral regional initiatives or consistent with other provincial initiatives, especially the British Columbia carbon tax.

About l'Institut québécois du carbone

The Institut québécois du carbone is a non-profit organization whose objective is to promote and disseminate research on climate change policy in Quebec and beyond. To this end, the Institute offers original and innovative research that will be distinguished by its quality and scientific rigor. The Institute also seeks to become one the largest group of specialists, experts and academics working on climate change policy in Quebec and elsewhere.

About the author

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