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Carbon pricing: the Canadian experience

Despite mitigating climate change and fostering innovation, carbon pricing is under attack in Canada

In 2015, the newly elected federal government, led by Prime Minister Justin Trudeau, ushered in a new era of progressive climate action in Canada. Upon returning from the Paris UN climate negotiations, over the course of 2016, federal, provincial and territorial governments negotiated and ultimately delivered Canada's first truly national climate plan: the Pan-Canadian Framework on Clean Growth and Climate Change (PCF). At the time, all three territories and 10 provinces, save Saskatchewan and Manitoba (which joined in 2018), signed on to the PCF.

But despite this original consensus, staying the course has proven difficult. The PCF contains almost 50 climate action measures, but one has come to dominate the public discourse. Carbon pricing — widely understood as the most cost effective way to reduce carbon pollution — has become a lightning rod for criticism in the lead up to the federal election in October. This division in politics could have serious implications for the future of climate action — not just in Canada, but globally as countries that have yet to price pollution are watching the Canadian experience. How did this volte-face come to be?

A brief history of Canadian carbon pricing

Until very recently, carbon pricing systems had been in application in Canada's four biggest provinces: British Columbia, Alberta, Quebec and Ontario. British Columbia, often cited as a model for carbon pricing, including by 2018 Nobel prize laureate William D. Nordhaus, first introduced a levy on fossil fuels in 2008. The levy started at USD 10 per ton of Carbon dioxide equivalent (CO2e) – a term for describing different greenhouse gases in a common unit – with a USD 5/year schedule increase, frozen in 2013 and restored in 2018.

Alberta had been pricing emissions from industrial emitters since 2007.

The scope of the policy was extended in 2017 with the application of a USD 20/t-CO2e levy on fuels. In 2018, the levy was increased to USD 30 and the system for heavy emitters was improved (most significantly by replacing facility-based standards with sector-based standards). Quebec and Ontario joined California's cap-and-trade system in 2014 and 2017, respectively.

Building on provincial leadership, the federal government in the PCF committed to expand carbon pricing across the country. Towards this goal, the government put forward a flexible, yet consistent approach whereby subnational governments were encouraged to implement their own carbon pricing systems, as long as it met a minimum set of benchmark requirements, or to apply the federal backstop. The latter, modelled on the Alberta system, starts at USD 20/t-CO2e in 2018, rising by USD 10/t-CO2e each year until 2022.

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When the Canadian government first announced this approach, 80 per cent of Canadians lived in provinces that had already adopted a benchmark-compliant carbon pricing system. However, with the June 2018 Ontario provincial election this started to shift. Despite his predecessor's support for carbon pricing, the new leader of the Ontario conservative party, Doug Ford, ran a campaign on a promise to cancel the cap-and-trade system. Four months after the election, the Government of Ontario rolled back carbon pricing, resulting in businesses losing billions of dollars tied to cap-and-trade investments and the cancellation of clean energy and energy efficiency programs for businesses and families funded with cap-and-trade revenues.

What should have been a cautionary tale for Canadians across the country became a blueprint for other jurisdictions. In the following months, the Saskatchewan and Ontario governments both filed a court case against the federal government's legal jurisdiction to implement the backstop, Manitoba reversed course on implementing its planned carbon pricing system (although no court case has been filed yet), and New Brunswick and Alberta both have newly elected governments that campaigned on fighting a carbon price. In June, Alberta cancelled its carbon pricing system.

Despite growing push back and anti-carbon rhetoric, the federal

government stood strong on its plan to implement the backstop. The backstop was applied in a two-step process, with the Output-Based Pricing System (OBPS, the system for large emitters) kicking in early this year, in January 2019, and the fossil fuel levy in April.

Information asymmetry

One of the challenges of implementing a carbon price is to effectively convey technical information on a pocketbook issue for average Canadians. A polarised environment where a lot of misinformation has diffused into the public discourse exacerbates the problem. Across the country, Canadians have a poor grasp of the basics of carbon pricing, how it works, and how it has been applied in different jurisdictions (at home and abroad) to deliver demonstrated benefits.

What also tends to fly low on the radar is how carbon pricing has been supported by leading conservative figures in Canada, including Preston Manning. Unfortunately, when it became clear that carbon pricing offered a powerful wedge issue, political opportunism trumped evidence.

That's why breaking down the anti-carbon pricing rhetoric in its three main parts offers a useful framework to explore lessons learned for proactively addressing the information asymmetry.

In the coming months, Canadians need to cut through the loud polarising rhetoric around carbon pricing.

First, the federal carbon pricing backstop has been designed to put money back in the pockets of Canadians, through tax rebates. However, opponents have framed it as cash grab that makes life less affordable for Canadians. Due to the lack of awareness around the benefits of carbon pricing, this framing has got traction and the carbon pricing systems in Ontario and Alberta were removed without much push back. These experiences speak to the importance of building policy resilience through raising awareness of benefits for families and businesses. A key lesson learned is the importance of proactively engaging constituents in a conversation around benefits, including options for revenue use from the very first stages of consultation to design the policy. This will contribute to inoculating constituents against the affordability frame.

Second, carbon pricing opponents expend much effort ignoring the

growing economic consensus that a broadly applied carbon price is an indispensable part of a strategy for reducing emissions in a cost-effective and efficient way. The economic consensus around carbon pricing bears repeating. In the Canadian debate, there's also been confusion around revenue neutrality: how does pricing emissions reduce emissions if the money is returned? By maintaining a price signal at the point of consumption, triggering behavior changes while protecting families through an annual tax return. Canada's national climate plan contains 50 measures that use regulations, investment and carbon pricing to reduce emissions in all sectors as cost-effectively as possible. Yet, carbon pricing opponents have successfully narrowed the debate on climate action to carbon pricing and conveniently neglected to put forward an alternative Paris-compliant path, along with its price tag.

Last but not least, well-designed carbon pricing systems can ensure economies are more, not less, competitive in the long run. In 2018, Quebec, Alberta, British Columbia and Ontario were the four best performing provinces in terms of GPD, all while having carbon pricing systems. Carbon pricing offers flexibility which promotes innovation and growth in low-carbon sectors – a benefit to the economy. The federal government has extensively consulted with industry on the design of the pricing system for heavy emitters to mitigate competitiveness concerns and the risk of leakage for emissions intensive and trade-exposed sectors and provided financial support to invest in innovation towards meeting the standards set under the system. Unfortunately, industry has generally refused to speak publicly in favour of the carbon pricing regime.

The October federal election will define energy and climate policy in Canada. In the coming months, Canadians need to cut through the loud polarising rhetoric around carbon pricing. They must demand their leaders put forward a vision for the next decade and a plan to do our part in keeping global temperature rise in check and build a competitive economy in a decarbonising world.



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