geoconvention
Virtual Event 2020
September 21-23
CSPG · CSEG · CWLS · GAC · MAC · IAH

THE GREENHOUSE GAS EMISSIONS COVERAGE OF CARBON PRICING INSTRUMENTS FOR CANADIAN PROVINCES

Jennifer Winter
The School of Public Policy, University of Calgary.
https://journalhosting.ucalgary.ca/index.php/sppp/article/view/53155/51731

Abstract

The Government of Canada first announced its intention to implement a nation-wide carbon price in October 2016. After two years of announcements, retractions, discussions and debate, the rollout of carbon pricing in each province was finalized in October 2018: the federal government announced its assessment of proposed and implemented provincial carbon pricing plans. We now can compare the coverage, stringency and efficacy of provincial climate policies, and to consider how they measure up with each other and with the federal government's standards. This paper focuses primarily on provincial systems' emissions coverage: the share of emissions subject to a carbon price. The federal government has set a pricing benchmark, the minimum level of emissions coverage that provincial pricing policies are required to meet. The federal backstop — consisting of a carbon tax and output-based pricing system (OBPS) for large emitters — is imposed on provinces whose policies don't measure up to the federal benchmark. We examine how the coverage of implemented, announced and former provincial pricing policies measure up to the benchmark and backstop. Using reported emissions data for each province from 2015, we provide an estimate of emissions coverage in each province from the policies in effect in 2019. The federal benchmark is defined as covering substantively the same sources as British Columbia's economy-wide tax on combustion emissions. Part of the motivation for the benchmark was to tackle the consistency problem arising from disparate provincial pricing policies. The federal government, however, has opted not to consistently enforce the benchmark across the provinces. As a result, the carbon pricing scene in Canada resembles a patchwork quilt, with policies and coverage varying across the country. Only two provinces — British Columbia and Quebec — have provincial pricing plans where coverage meets the federal benchmark. British Columbia's carbon tax is the definition for the benchmark, while in Quebec the cap-and-trade system surpasses the benchmark and provides coverage comparable to the federal backstop. Alberta, Nova Scotia, Prince Edward Island, and Newfoundland and Labrador have all introduced provincial carbon pricing plans that fall short of the federal benchmark for coverage. Despite this, all four provinces received the federal government's endorsement. Alberta's shortcoming is the result of a targeted and short-term exemption of small oil and gas producers, while Nova Scotia's cap-and-trade program meets the federal benchmark's stringency requirement for overall emissions reductions. This likely explains the federal government's flexibility with these provinces. The justification for the exceptions provided to Prince Edward Island and Newfoundland and Labrador are less obvious, and may be a nod towards the relatively rural nature of both provinces, as well as more limited access to lower-emitting fossil fuel substitutes. The remaining four provinces — Saskatchewan, Manitoba, Ontario and New Brunswick — will see the federal backstop imposed in whole or in

part. In Saskatchewan the federal backstop will be a top-up to the province's proposed performance standards system. New Brunswick's proposed carbon pricing plan includes adoption of the federal backstop's OBPS for its large emitters. Its carbon tax, however, fell explicitly short of the federal benchmark. As a result, the backstop will be imposed in full in the province. The federal backstop will also be imposed in full in Manitoba and Ontario, a result of both provinces reneging on their original carbon pricing plans. Coverage of the now defunct plans in both provinces exceeded the federal benchmark and were comparable to the federal backstop. With the federal backstop, both provinces now face higher carbon prices in the long run and have sacrificed control of carbon pricing revenue to the federal government. When all is said and done, carbon pricing coverage differs substantially across the provinces. Due to variation in emission sources, as well as region-specific exemptions, carbon pricing coverage will range from 47 per cent of emissions in Prince Edward Island to 90 per cent in New Brunswick. Some of the disparity in provincial coverage reflects differences in provinces' industrial profiles. This points to a need for complementary emissions-reduction policies for noncombustion emissions in these jurisdictions. Other disparities, however, can be traced to the federal government's inconsistent application of the coverage benchmark. The federal government will likely face increasing pressure on this point going forward, particularly from the growing number of provinces that are opposed to carbon pricing and expected to criticize any evidence of inequitable treatment.