Canada’s Climate Policy:
Promises, Expectations and Practicalities

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Abstract

The post-Paris First Ministers meeting to formulate a “Pan-Canadian” climate policy, as promised by Prime Minister Trudeau, is just a few short weeks away. It offers the promise of a more cooperative and inclusive federal-provincial approach to Canadian climate change policy and the potential for real progress. But there are serious challenges to overcome. In particular, the federal government’s promise to take the lead on climate doesn’t square with the fact that provinces are already leading. Addressing this tension is one of the big obstacles heading into the March meeting. This brief considers two possible outcomes from the First Ministers meeting. A “near status” quo approach has the benefit of considerable provincial flexibility but is unlikely to deliver cost-effective emissions reductions of the magnitude needed to achieve the federal government’s target. The adoption of a transition-to-harmonization approach is more challenging politically, but offers a greater opportunity for progress on reducing emissions at a time when the federal and provincial governments have an appetite to do so.
Introduction

The recent federal election brought into power a Liberal majority government and, with it, a new leader with a stated commitment to take action on climate change policy. A few months later Canada emerged from the Paris meeting of the Conference of the Parties to the United Nations Framework Convention on Climate Change (COP21 for short) with a “new” image on climate change, at least in the international arena.

At home, the next step is a post-Paris First Ministers meeting to formulate a “Pan-Canadian” climate policy as promised by Prime Minister Trudeau. That meeting is now just a few short weeks away. It offers the promise of a more cooperative and inclusive federal-provincial approach to Canadian climate change policy and the potential for real progress. But there are serious challenges to overcome. How can the federal government put into action its’ vision for climate policy? Do provinces continue to lead the way? Can the federal government play a meaningful leadership role? The potential for intergovernmental conflict is high, given the differences in provinces’ emissions profiles. And current economic conditions, particularly in Alberta, may derail a national climate change policy perhaps before it really begins.

This brief examines the current state of play in the federal-provincial dimensions of climate policy in Canada. A brief summary of federal and provincial climate policy action to date is provided. Following this, we examine the federal government’s recent climate policy promises and the provinces’ actions and expectations’ for the federal government’s role. Provincial initiatives, already well underway, combined with a decade of federal inaction has led to a significant gap between the federal promises and provincial expectations. Not surprisingly, overcoming this gap is one of the big obstacles heading into the March meeting with the Premiers. While the meeting is unlikely to produce a fully functional, pan-Canadian climate policy, it does provide an opportunity to establish a process for developing federal-provincial climate policy moving forward. We outline two possible approaches. A “near status quo approach has the benefit of considerable provincial flexibility but is unlikely to deliver cost-effective emissions reductions of the magnitude needed to achieve the federal government’s target. The adoption of a transition-to-harmonization approach is more challenging politically, but offers a greater chance of reducing emissions in a cost-effective manner while preserving key aspects of provincial flexibility.

Canadian Climate Policy: Background

The federal government has been relatively inactive on climate policy for the past decade. Stephen Harper and the Conservative Party came to power in 2006 (Harrison, 2007). Under Harper’s leadership, Canada committed to an emissions reduction target of 17% of 2005 levels by 2020 under the non-binding Copenhagen Accord in 2009.¹ Canada also withdrew from the Kyoto Protocol in 2011, prompting much international criticism.² Ottawa has opted for a regulatory approach to climate policy, introducing

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¹ The Copenhagen Accord falls under the United Nations Framework Convention on Climate Change to which all members are required to submit yearly emissions data. Canada’s commitment implies that the target will be 611 Mt in 2020 (Environment Canada, 2014).
² China’s Foreign Ministry spokesman Liu Weimin referred to Canada’s decision as “regrettable and flies in the face of the efforts of the international community for Canada to leave the Kyoto Protocol at a time when the Durban meeting, as everyone knows, made important progress by securing a second phase of commitment to the
vehicle emissions standards, an electricity performance standard for coal-fired generation, public transit tax credits, and residential building code changes (Environment Canada, 2014). However, the sector by sector regulatory approach preferred by the federal government was never fully implemented.

In the absence of substantive federal action, provinces took the lead and introduced their own climate change initiatives. Several provinces have introduced (or are contemplating) some form of carbon pricing. British Columbia’s broad-based, revenue-neutral carbon tax has been in place since 2008. The carbon tax is currently frozen at $30 a tonne (Government of British Columbia, 2008). Quebec introduced a cap and trade system covering industrial and electrical sectors in 2013 with plans to expand coverage to include the fossil fuels sector in 2015 (International Carbon Action Partnership, 2016). The permit price floor is scheduled to rise over time as the emissions cap declines (Government of Quebec, 2016). Quebec officially linked its cap and trade system with California in 2014. And in 2015, Manitoba and Ontario announced their intention to implement a cap and trade system that would eventually be linked to the Quebec system (Office of the Premier, 2015).

Alberta has a hybrid approach. The Specified Gas Emitters Regulation, introduced in 2007, requires large industrial facilities to reduce their emissions by 12% compared to baseline levels. Emitters have several compliance options. They can reduce emissions, pay a fee of $15 per tonne of CO₂, purchase emissions offsets, or use emissions performance credits. The emissions fee is directed to a dedicated technology fund and is calculated based on 12% of emissions above baseline levels (Read, 2014). By 2017, the emissions fee is set to increase to $30 a tonne while the required reduction in emissions intensity increases from 12% to 20% (Sears, 2015). Recent changes announced in November 2015 indicate that Alberta will increase the carbon tax to $20 in 2017, broaden the scope of emissions covered, and cap oil sands emissions (Government of Alberta, 2016).

In addition to these carbon pricing policies, provinces have also introduced various regulatory measures. Quebec and British Columbia, for example, have introduced vehicle fuel-efficiency regulations (Holmes, et al., 2012). Ontario has fostered investment in clean energy through the Green Energy Act, and has eliminated coal-fired electricity. Nova Scotia has capped emissions from Nova Scotia Power Incorporated, which in 2009 accounted for just under 50% of the province’s total emissions (Nova Scotia Department of Environment, 2009).

Table 1 shows the emissions reductions targets as announced by the provinces as well as target and projected emissions for 2020. Three key observations can be made. First, even though provinces have taken the lead on climate, emissions reductions in most provinces will fall short of their targets. Second, at an aggregate level, emissions for Canada are projected to be well above the Copenhagen target. A recent report by the Auditor General supports this conclusion, estimating that for Canada as a whole emissions reductions by 2020 are projected to be only 7% of 2005 levels, well below the Copenhagen target of a 17% below 2020 (Office of the Auditor General, 2014).

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3 Environment Canada, 2014.
4 A recent Environment Canada report estimate an even greater shortfall in emissions reductions – with projected emissions of 727 Mt in 2020, Canada is 116 Mt over the implied Copenhagen target. This represents a 1% reduction from 2005 levels.
<table>
<thead>
<tr>
<th>Announced Targets</th>
<th>2020 Target Emissions (Mt CO₂ eq)</th>
<th>2020 Projected Emissions (Mt CO₂ eq)</th>
<th>Emissions Over Target</th>
<th>Pricing Mechanism</th>
</tr>
</thead>
<tbody>
<tr>
<td>British Columbia</td>
<td>33% below 2007 levels by 2020</td>
<td>45.60</td>
<td>69.00</td>
<td>Carbon Tax - $30</td>
</tr>
<tr>
<td>Alberta</td>
<td>50Mt by 2020 below business as usual</td>
<td>237.00</td>
<td>287.00</td>
<td>Hybrid - $15</td>
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<tr>
<td>Saskatchewan</td>
<td>20% below 2006 by 2020</td>
<td>58.40</td>
<td>73.00</td>
<td>N/A</td>
</tr>
<tr>
<td>Manitoba</td>
<td>15% below 2005 by 2020</td>
<td>17.60</td>
<td>23.00</td>
<td>N/A</td>
</tr>
<tr>
<td>Ontario</td>
<td>15% below 1990 by 2020</td>
<td>154.70</td>
<td>170.00</td>
<td>N/A</td>
</tr>
<tr>
<td>Quebec</td>
<td>20% below 1990 by 2020</td>
<td>71.84</td>
<td>80.00</td>
<td>Cap and Trade - $10.75</td>
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<tr>
<td>New Brunswick</td>
<td>10% below 1990 by 2020</td>
<td>14.85</td>
<td>16.00</td>
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</tr>
<tr>
<td>Nova Scotia</td>
<td>10% below 1990 by 2020</td>
<td>18.18</td>
<td>15.00</td>
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<td>Newfoundland and Labrador</td>
<td>20% below 2005 by 2020</td>
<td>8.78</td>
<td>8.00</td>
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<tr>
<td>Prince Edward Island</td>
<td>10% below 1990 by 2020</td>
<td>1.70</td>
<td>2.00</td>
<td>N/A</td>
</tr>
<tr>
<td><strong>Territories</strong></td>
<td></td>
<td>2.76</td>
<td>2.00</td>
<td>-0.76</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td>631.40</td>
<td>745.00*</td>
<td>113.60</td>
</tr>
</tbody>
</table>

* Measures for Land Use, Land-use Change and Forestry sector are not modelled at a provincial level. As a result, the total of 745 Mt overestimates national emissions. Total projected national emissions (including these measures) are projected to be 727 Mt in 2020.

Source: Environment Canada, 2014 (Tables 18 and A.8) and author’s own calculations

**Climate Policy: Current state of play**

Carbon pricing in Canada is currently limited in scope and stringency and we have clearly missed the Copenhagen target for 2020. The federal election and Paris conference outcomes have, however, created a new sense of optimism that real progress on climate change policy, particularly carbon pricing, can be achieved. Renewed enthusiasm aside, there is still a sizeable gap between the new
federal government’s climate change promises and what provincial governments’ expectations are for the federal government.

Federal Promises

The federal government and Prime Minister Trudeau have made a number of climate change promises including a national carbon price, federal funds to support provinces’ climate policy initiatives, a collaborative federal-provincial approach to climate policy, and a national emissions reduction target of 30% of 2005 levels by 2030.

Some of these promises were made long before official campaigning for the 2015 federal election began. In February 2015, Trudeau made a commitment to (i) a national carbon price, (ii) set national targets, and (iii) allow provinces to design their own systems. A number of climate commitments were reiterated by Trudeau and the Liberals during the election campaign. They promised to attend the December COP21 meeting in Paris with the Premiers. An earlier commitment to hold a First Ministers meeting within 90 days of the Paris talks to begin work on a climate change framework was also reaffirmed (Government of Canada, 2015).

Canada, under the leadership of newly elected Prime Minister Trudeau, signed the Paris agreement in December 2015. The agreement explicitly states a global effort to limit the global average temperature rise below 2°C and to pursue efforts to limit the increase to 1.5°C (United Nations Framework Convention on Climate Change, 2015). Canada did not commit to a more stringent target but the pre-existing national target to reduce emissions by 30% from 2005 levels by 2030 would now be considered a floor. The interim strategy contends that a national framework will be set, and that provinces and territories will have targeted federal funds to design their own climate change or carbon pricing strategies (Government of Canada, 2015).

While the federal government’s commitments signal a willingness to move on climate and engage with the provinces in the process, there is plenty of room for manoeuvring. Heading into the promised First Ministers meeting in March, many questions about how these promises will be fulfilled remain. How will a national target and the commitment to a national carbon price be achieved while at the same time allowing provinces to set their own policies?

Provincial Expectations

The provinces’ expectations for the federal government in regards to climate change while not entirely clear are at best only partially aligned with the federal government’s promises. The provinces expect the federal government to take the lead on climate but they also expect to receive federal funding and have the ability to pursue their own climate change policies. However, the provinces themselves do not agree on what policies to use or how stringent those policies should be.

Over the past several years, the provinces have repeatedly called on the federal government to take a leadership role on climate. At a joint news conference in January 2015, Premier Kathleen Wynne and Justin Trudeau “accused the federal government of an absence of leadership that has all but forced the
provinces and territories to tackle carbon pricing ... on their own”.
Quebec Environment Minister David Huertel argued the provinces “just want to work with Ottawa, and we haven’t had any real response to our demands of just working together” (Parry, 2015). Provincial expectations suggest a belief that the federal government should be doing its share but the Harper government approach was one of inaction, at least on the climate file.

Similar sentiments were expressed at the provincial summit on climate change in April 2015. Some premiers again “lamented what they called a lack of leadership from Ottawa in co-ordinating the provinces’ strategies”. Quebec Premier Couillard stated “One order of government cannot ask the other to do the job, it has to be done together” (The Canadian Press, 2015).

The provinces now face the very real prospect of a more actively engaged federal government willing to take the lead. The expectation and realization of this prospect has prompted a number of provinces to make new climate policy announcements. A memorandum of understanding (MOU) was signed by Premiers Kathleen Wynne of Ontario, Philippe Couillard of Quebec, and Greg Selinger of Manitoba and their respective environment ministers that outlined an intent for Ontario and Manitoba to implement a cap and trade system, eventually linking to Quebec’s system (Office of the Premier, 2015). The MOU contains various other joint climate initiatives and builds on a prior MOU signed by Ontario and Quebec in 2015. Just prior to the Paris conference, Alberta announced changes to their emissions regulations including a cap on oil sands emissions and an increase in the carbon tax from $15 a tonne to $20 in 2017 and $30 in 2018 for all sectors. The changes to the SGER brings Alberta towards a carbon tax system with proceeds pledged to be invested in measures that reduce pollution (Government of Alberta, 2016). With the announced and existing provincial initiatives, 90% of the Canadian population will be covered by some form of carbon pricing (Office of the Premier, 2015). New Brunswick also signalled just ahead of the Paris conference that a carbon tax was one possible carbon pricing approach under consideration. Premier Brian Gallant said “[i]t’s very clear that the best way to do any type of price on carbon for a jurisdiction and have a good, positive impact on the economy is making it revenue neutral” (Poitras, 2015).

The timing of these announcements is important. Provinces are sending a clear signal about their desire to implement their own policies and their expectations about the federal government’s role in moving forward. The desire for provincial flexibility is driven partly by the uneven distribution of emissions across provinces. Figure 1 shows the provincial shares of 2012 emissions. Alberta is Canada’s largest Greenhouse Gas (GHG) emitter. Per capita emissions in 2012 were highest in Saskatchewan and Alberta. Since the election, provincial expectations emphasize more of a support and coordination, rather than leadership, role for the federal government. And provinces are now looking for information on how and when the targeted funds promised by Trudeau will be available.

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6 At the First Ministers meeting in November 2015, Ontario Premier Kathleen Wynne said that the federal government should focus on providing “support to provincial initiatives” (McCarthy & Galloway, 2015).
Climate Policy Practicalities

No one expects the federal government and the provinces to emerge from the post-Paris First Ministers meeting with a fully functional, pan-Canadian climate policy in hand but it does provide an opportunity to establish a process for closing the gap between the federal government’s commitments and provincial expectations.

While a number of paths can be envisioned, differentiated by politically feasibility, cost effectiveness, environmental effectiveness, and federal-provincial conflict, we consider two possible scenarios – a “near” status quo option and a transition-to-harmonization approach.

“Near” Status Quo:

One possible outcome is for the provinces to continue to develop their own independent climate policies with the federal government’s role limited to providing financial support for provincial initiatives.\(^8\) Federal funding could be conditioned, for example, on the imposition of a minimum provincial carbon price or on ensuring a certain percentage of provincial emissions are covered by a carbon pricing scheme. This scenario resembles the status quo with the addition of federal funding. The

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provincial governments’ climate policy lead combined with federal inaction and the short tenure of the
new Liberal government suggests this outcome is certainly, if not highly, probable. It is politically
feasible and minimizes federal-provincial conflict in the near term. But this approach does little to bridge
the gap between federal promises and provincial expectations and is problematic for several reasons.

It does not ensure that provincial policies are sufficiently broad and stringent enough to achieve the
emissions reductions needed to reach the 2030 target. A timetable for increasing the stringency of
policies over time could be set jointly by the provinces but provinces have so far been unable to agree to
such a timetable. The environmental - and cost-effectiveness of this approach is questionable.
Conditional grants are used infrequently and provinces generally complain about them. Grants would
likely be transitional but the magnitude of grants needed to induce the desired behaviour on the part of
provinces is unknown. And it is questionable whether the federal government could commit to that level
of funding, especially given current fiscal conditions. The question of how grants might be structured is
also unclear. One option is for grants to be given on a discretionary basis, influenced by one-on-one
negotiations between the federal government and each province (like adjustments grants given when
provinces introduced the harmonized sales tax). Alternatively, a grant could be agreed upon by the
federal government and all (or most) of the provinces, based on a set of principles or metrics, an
approach more common is the earlier days of income tax harmonization.

Transition-to-Harmonization Approach:

In this scenario, the federal government and the provinces emerge from the First Ministers meeting with
a concrete agreement to transition to a more harmonized approach. The key elements include a
timetable to (i) reduce the variation in explicit carbon prices across provinces and emissions sources and
(ii) increase the level of carbon prices over time. Provinces can continue to develop their own climate
change policies but flexibility is limited to explicit carbon pricing policies. The federal government
introduces a minimum carbon tax, possibly with a delay. In provinces without an explicit carbon price in
place, revenues collected by the federal government from that province are returned to them. In
provinces where the carbon pricing policy establishes a price at or above this minimum, arrangements
are made such that the federal carbon tax is reduced in that province.9 All federal tax revenues collected
from a province are returned to the province. A federal carbon tax floor is perhaps the easiest and most
direct way of achieving a national carbon price while preserving some flexibility on the part of provinces
to implement their own carbon pricing or opt for the federal tax.

This approach is likely to encounter some political resistance and the scope for federal-provincial conflict
in the near term is higher. On the other hand, the approach holds the promise of establishing a Canada-
wide carbon price system that could eventually be sufficiently broad and stringent enough to achieve
the emissions reductions needed to achieve the national target. Environmental - and cost-effectiveness
are likely to be higher in this scenario. Provinces retain some but not full flexibility. The federal
government plays a critical role in providing leadership and coordination but all carbon pricing revenues
are returned to the provinces. This scenario is harder to achieve than the “near” status quo option. It
does however offer greater promise of more effective and cost-effective emissions reductions in the
longer term.

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9 For example, if the carbon price (minimum permit price or carbon tax is $30 per tonne and the federal carbon tax
is $50, the federal tax in that province is reduced to $20 per tonne.
Evaluating the options

Let’s work backwards from where we think Canadian climate policy needs to be in the longer run. First, policies need to be sufficiently stringent to reach the national emissions reduction target in 2030. This means carbon prices must rise from current level by a significant amount. Second, since the process of reducing emissions will entail costs, climate policy in the longer term needs to be as cost-effective as possible. This suggests that the variation in carbon prices (across provinces and across emission sources) needs to shrink. Third, the costs will be unevenly distributed across provinces, so fairness dictates that provinces have some flexibility in addressing these concerns.

It is highly unlikely that these objectives are achievable by 2030 given a “near” status quo approach. While provinces will retain maximum flexibility to address fairness issues and unique provincial circumstances, emissions reductions will almost certainly be insufficient and costly. In the past 15 years provinces have proven unable to agree on targets, the choice of climate change policy or a coordinated timetable. If the gap between provincial climate policy leaders and laggards grow, tensions between provinces will also escalate.

The transition-to-harmonization approach has greater potential for emissions reductions. A minimum federal carbon price and broad emissions coverage will yield more, and more cost-effective, emissions reductions. Provinces have flexibility to choose their own carbon pricing policy or the federal carbon tax. Provinces receive all carbon tax revenues and are free to decide how best to use them. A timetable for ratcheting up the federal carbon price is at least as, and probably more, credible than an agreement by provinces to increase carbon prices on their own. Opting for reliance on explicit carbon prices (rather than implicit carbon prices achieved via regulation) increases transparency of the policy. A federal carbon tax is probably the most straightforward and easiest way to implement a minimum carbon price floor in a short time frame.

Conclusions

The past decade of federal and provincial climate policy indicates current climate policy initiatives are not sufficient to achieve existing provincial and national targets, including the national target reaffirmed at the Paris conference in December 2015. The Prime Minister is on the record with a commitment to a national carbon price and a collaborative approach with the provinces. Delivering on this promise will be difficult. The provinces want federal government leadership but they also want the flexibility to pursue their own approaches. The upcoming First Ministers meeting offers an opportunity to set out a process for moving climate policy forward. Adopting a “near” status quo approach will preserve provincial flexibility but may prove costly to the federal government and is likely to be ineffective in terms of achieving national emissions reduction targets. Navigating the fiscal and political difficulties associated with federal leadership in a transition-to-harmonization approach would be challenging but would offer a greater opportunity for real progress on climate change policy at a time when the federal government and the provinces have demonstrated the appetite to do so.

For example, the April 2015 provincial summit on climate change in Quebec produced a joint declaration with no agreement on specific goals or specific policy instruments (The Canadian Press, 2015).
References


