Pan Canadian Carbon Pricing
Policy Case Studies

Rethinking Decarbonisation Incentives

The Canadian federal government is seeking to establish a consistent set of carbon pricing systems across Canada through the Pan-Canadian Framework on Clean Growth and Climate Change (PCF).

Policy Type: Carbon Tax, Emission Trading Schemes, Offsetting Mechanisms, Hybrids

Key Features
Provinces have the autonomy to design a carbon pricing mechanism of their choice, provided it is sufficiently stringent. Taxes, emission trading schemes, offsetting mechanisms, and hybrids are implemented or proposed by provinces.

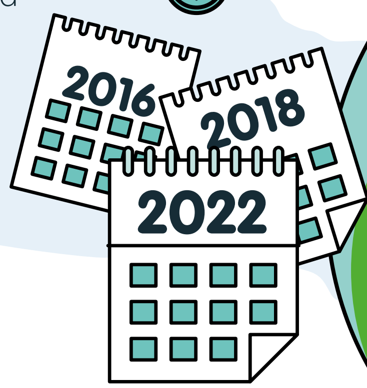
Sectors Covered
Power, Transport, Buildings, Industry[1], Agriculture[1], Waste[1].

Sectors Not Covered
Forestry.

Emissions Covered
77%

Carbon Price
CAN$10
/tCO_2e in 2018
(~£5.70)[2]

Point of Regulation
Mixed Approach. Provinces have the autonomy to choose upstream, downstream or at the point of emission.



Key Dates
Founded on a 2016 declaration, 2018 is the deadline for provincial ratification of the PCF. Systems will be assessed between 2018-2022, and if deemed insufficient, a back-stop policy will be implemented by 2022.

"The enduring economic and environmental benefits of coordination outweigh the one-time costs of federal-provincial negotiations."

Canada's Ecofiscal Commission, The Benefits of Coordinating Canadian Carbon Pricing Strategies.

[1] Only energy emissions, associated with the combustion of fossil fuels, are covered.
[2] Exchange rate June 2018: CAN$1: £0.057. Source: www.xe.com, accessed 29/06/2018.

Introduction

The Canadian federal government collaborated with provincial governments to develop the PCF, which provides a common framework for addressing climate change while allowing jurisdictions to apply their own mitigation policies. Jurisdictions had to ratify the PCF by February 2018, after which it will be legislated. The PCF aims to harmonise carbon pricing approaches across jurisdictions, as well as imposing federal regulations on Hydrofluorocarbons (HFC) and methane emissions, a clean fuel standard, and a plan to phase out coal-fired electricity.

The PCF proposes that a back-stop approach be applied to jurisdictions who choose it, or, whose policy approaches fail to meet the minimum stringency standards. The back-stop is made up of a carbon levy (tax) applied on all fossil fuels and a market mechanism covering large industrial facilities (referred to by the Canadian authorities as the 'output-based pricing system'). Under the output-based pricing system, industrial facilities which emit less than the performance benchmark are provided with credits, which can be banked for future compliance or traded with others. Those who emit more, must surrender credits.

However, the federal government is facing significant political and technical challenges in the attempt to develop consistent approaches to carbon pricing across diverse provinces and territories, particularly when jurisdictional governments have diverse political leanings.

Key Findings

Design of the PCF

- A key principle underlying the PCF is to ensure that the carbon pricing approaches adopted in jurisdictions are of equivalent stringency. However, equivalence regarding minimum price levels can only be evaluated in 2022. Until that time, there is a risk that the pricing systems will not meet the minimum stringency criteria.
- The output-based pricing system for large industrial facilities is designed to create a decarbonisation incentive without damaging the international competitiveness of the industries covered. As it is only applied to emissions above the benchmark, this reduces total carbon costs for entities.

Political Challenges

- Canada's federal government has shown substantial political will in trying to create a national carbon price signal and to coordinate the different jurisdictional approaches. The policy is driven by the desire to provide a level playing field for business within the country, with respect to the carbon costs faced.
- The federal government has adopted a carrot and stick approach to encouraging provincial cooperation on the PCF. Those that cooperate can gain technical support, additional funding and have some autonomy in designing their carbon pricing regimes. Those that do not, risk loss of funding and being subject to federally enforced carbon pricing approach. Nonetheless, a number of serious political risks remain as not all provinces and territories have welcomed the PCF.
- Finally, many consider the federal government's action on carbon pricing is undermined by its lenient policies on the fossil fuel industry. However, others see such compromises as necessary to secure support from powerful provinces such as Alberta, where the fossil fuel industry is prominent.

Definitions

Carbon Tax
A tax on carbon dioxide and possibly other greenhouse gas emissions.

Emissions Trading System
A cap on emissions is set and obligated parties are required to hold a permit for each tonne of emissions they emit. The cap determines the number of allowances available in the system, which can be traded between parties.

Offsetting
A reduction in emissions of greenhouse gases made in order to compensate for or to offset an emission made elsewhere.

Point of Regulation
The point in a chain of emission producing activities at which a regulator places the obligation to comply with emission reduction policy. The point is defined relative to the point of emission, either up or downstream from this.