Staying the course

How Canada's GHG reduction plan can withstand changing policies south of the border



Canada's first ministers announced the release of the Pan-Canadian Framework on Clean Growth and Climate Change following the First Ministers' Meeting, on Dec. 9, 2016, in Ottawa.

CANADA PLANS TO lower its greenhouse gas emissions to 30 per cent below 2005 levels by 2030. This target represents both a broad consensus and an ambitious goal. While meeting it won't be easy, recent policy moves show how Canada can move forward with a greener but still vibrant economy, despite new environmental policy question marks that have arisen south of the border under President Trump.

The centrepiece of Canada's recent action following a meeting of first ministers is the federal-provincial Pan-Canadian Framework on Clean Growth and Climate Change. Though part of the framework focuses on clean technology and fostering innovation, a crucial element focuses on how Canada can significantly reduce its greenhouse gas emissions. The plan includes a national price on carbon (and equivalent) emissions — starting at $10 per tonne in 2018, rising to $50 by 2022 — and complementary actions, such as methane regulations, clean fuel standards and phasing out coal electricity. But with a small population, borders open to trade and a decentralized political system, Canada faces many challenges.

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First, stringent policies here may simply shift emissions elsewhere. Trade and investment are global, after all, so tight policy here may just lead firms to shift investment and GHGs elsewhere, costing Canada's economy with little environmental gain. Economists call this "leakage," and it is a growing concern given recent political developments in the United States. Though states control many of their own environmental regulations, President Trump has made it clear he wants to roll back a number of environmental initiatives, and economy-wide carbon pricing is not in the cards. For Canada, smart policy can help. Some provinces use carbon revenue to directly support industry, while others lower corporate taxes to stimulate growth and keep business at home. Importantly, provinces are free to design their own approach, which is critical because provinces don't want to lose business to less regulated areas.

Second, because Canada's emissions depend on international forces, policies need to be flexible. To hit its target regardless of international forces, Canada should lower domestic emissions by as much as is feasible and cost-effective, and then reduce global emissions by whatever is left. To illustrate, recent analysis for the Ontario government by EnviroEconomics suggests that for Ontario to meet its target, up to 80 per cent of the necessary reductions will come from lowering emissions elsewhere, primarily in California. Ontario can do this because it operates within an integrated cap-and-trade system with California and Quebec, where emitting requires a permit (essentially a licence to emit a certain amount of GHGs). Those permits are tradeable, and though they're costly, the analysis shows it is far cheaper for Ontario to buy some emissions permits from California — thereby lowering emissions in California and contributing to a global reduction — than trying to lower its GHG emissions on its own. This type of flexibility is an important feature of the Pan-Canadian Framework.

Finally, it is important to remember that Canada is a decentralized federation. Federal policies can help coordinate and potentially unify provincial policies, improving the cost-effectiveness of meeting Canada's climate goals. But it is not without tension. If provinces fail to price carbon, the federal government will do it for them (returning all revenue raised to the provincial governments). It's a solution, but it may not be looked upon favourably by the people of that province; the internal political challenges are real and not yet resolved.

As climate concerns rise, so too will the debate on how best to lower emissions. But even in the face of limited U.S. action, or indeed action that seems to be leaning toward doing less to fight climate change, smart policy can help Canada meet its goals with minimal economic costs. ■

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