To Price or Not to Price: Canadian Climate Policy Dilemmas and Implications for Brussels and Washington

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Canada has in recent years developed into an unexpected international success story on carbon pricing, joining a club of nations developing robust pricing systems.[1] Just a decade ago, Canada appeared a long-shot for any consequential pricing program, given its substantial oil and gas production, diverse regional economies, and a federal system of government giving regional governments control over natural resources.[2] In turn, its American neighbor and predominant trade partner lacks any national carbon price. Nonetheless, in 2018, Canada adopted a nation-wide price on carbon designed to steadily increase until reaching 170 CAD per tonne in 2030.[3]

Much like the country's public health care system,[4] carbon pricing Canada-style was achieved politically by allowing its ten provinces and three territories flexibility to adopt their own policies and retain control over revenue allocation as long as they met federally-established benchmarks. This included both a fuel tax (or charge) for consumers, for activities like transportation and home heating, and a performance standard and credit trading system for industrial emissions. This policy step appeared to retain fairly solid political support, reflected in Liberal Party-led electoral victories in 2019 and 2021 and public opinion surveys.[5] Ottawa recently committed $7 billion to issue "carbon contracts for difference" to protect industry against any future price volatility.[6] In early December, during COP 28 in Dubai, Canada announced a cap-and-trade system specific to its oil and gas sectors, expanding the federal stable of pricing mechanisms.

Despite this announcement in conjunction with a high-profile international forum, at the domestic political level the relatively smooth ride of carbon pricing has ended. As Canada experiences a housing supply and affordability crisis and inflation, Prime Minister Justin Trudeau and his Liberal government's commitment to its carbon pricing system shows signs of wavering. The policy faces accelerating attacks from provincial premiers. Pierre Poilievre, leader of the opposition Conservatives, has eclipsed Trudeau and his party in recent surveys, regularly pilloring carbon pricing as a major contributor to inflation, despite the head of the Bank of Canada indicating that any economic impact is minimal.[7] Elections loom in either 2024 or 2025.

1 Rabe, B. 2023. Carbon Pricing Enters Middle Age. Wilson Center.
2 MacDonald, D. 2020. Carbon Province, Hydro Province: The Challenge of Canadian Energy and Climate Federalism. University of Toronto Press.
3 Approximately 127 USD.
4 Boychuk, G. 2008. National Health Insurance in the United States and Canada: Race, Territory and the Roots of Difference. Georgetown University Press.
5 Eberhard, K. 2023. Canada's Federalist Carbon Tax. Niskanen Center Canada's federalist carbon tax - Niskanen Center accessed November 11, 2023.
6 Canada. Department of Finance. 2023. 2023 Fall Economic Statement. FES-EEA-2023-en.pdf (canada.ca) Accessed November 22, 2023.
7 Markusoff, J. 2023 (September 8). There's Now a Bank of Canada Number for Carbon Tax's Impact on Inflation. It's Small. CBC News, accessed November 21, 2023

option would be to introduce additional pricing or regulations for individual sectors, similar to the one proposed for the oil and gas sectors. Using either of these approaches would shift the price upstream to industrial activity and avoid targeting consumers at the gas pump or on monthly utility bills. Of course, costs borne by industry may simply be passed down to individuals. But this shift could make the policy less prone to the kinds of partisan political attacks and public scapegoating increasingly common in Canada in recent months, possibly emulating durable carbon pricing programs such as the European Union's Emissions Trading System. Blending strengthened industrial pricing with some expanded government investments to support industry emissions reduction may open a politically sustainable policy path.

Political adjustment of the existing industrial system, however, likely would not produce enough emission reductions to offset the loss of the fuel charge. A recent report from the federal Environment Commissioner, an independent government watchdog, found that even with pricing and all other existing policies, Canada is unlikely to meet its 2030 GHG targets.[12] The industrial system focuses on intensity (emissions per unit of production) rather than absolute emissions, applied only to emissions over an established performance standard. Attempting to develop additional pricing mechanisms, regulations, or emission targets for sectors like electricity, vehicles, and oil and gas production, has proven challenging even when done in concert with provinces and territories. Most sector specific regulations would likely be jettisoned or weakened under a federal Conservative government.

One area where there may be some cross-party consensus would entail expanding subsidies to citizens to purchase more climate-friendly products like electric vehicles and heat pumps or to industries to acquire technology to reduce their emissions. However, there is no evident groundswell of Canadian political support to attempt to replicate America's massive subsidy-centered climate path. Any new Canadian funding prols0 (,)70s to 1 (ould entailmmo)5.1peh.center (h as the Eu
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carbon border adjustment under the United States-Mexico-Canada Agreement to US goods entering the country and open the door to exemption demands from south of its border. In short, if Canada moves towards an American-style climate policy approach that eschews pricing, the hurdles to expanding or increasing the carbon pricing regime in the future will continue to mount both inside and outside the country'sutside the c