

# Carbon Pricing: an Atlantic Canada Perspective

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# Overview



- The Need for a Price on Carbon
- Tools to be Used
- Ottawa Controls the Agenda
- Implications for Atlantic Canada
- Next Steps

# Why a Price on Carbon



- Making energy sources with higher carbon emissions more expensive is believed by many to be a cost-effective way of reducing carbon and moving to a lower carbon future.
- In 2016 most jurisdictions in Canada signed on to putting a price on carbon as part of the “PanCanadian Framework on Clean Growth and Climate Change.”
- The devil is in the details.

# The Tools for Pricing Carbon



## – Carbon Tax

- Explicit price-based system
- Raising cost of fuels expected to inform and guide consumer choice
- May need to be VERY high if GHG reduction goal is significant
- Revenues available for general purposes, recycled for tax cuts or used to support enabling measures ie. efficiency or new technologies to reach lower carbon objectives
- Carbon Tax Rates
  - \$10 per tonne of CO<sub>2</sub> emissions in 2018 rising to \$50 per tonne in 2022
  - Example: \$0.028 per litre for home heating oil in 2018 and \$0.116 in 2022
- Note: the cost of carbon is transparent and thus politically sensitive – particularly at very high levels

# The Tools for Pricing Carbon



## – Cap and Trade

- A baseline of emissions (GHG's) is calculated
- A goal for future emissions (lower) is set
- Emissions are capped
- Credits are issued or sold to carbon emitters and gradually reduced
  - Emitters must reduce the carbon content of their activities or buy credits from elsewhere
  - Emitters who are more successful in reducing emissions trade off their surplus
  - Governments who sell credits into the marketplace can recycle revenues or use them to support enabling measures ie. efficiency or new technologies to reach lower carbon objectives
- Carbon prices less obvious but trading system rules are often extremely complex, administrative burden higher than carbon taxes and may require broad markets to be efficient

# The Tools for Pricing Carbon



## – Hybrid System

- Carbon Levy/Tax plus an Output-based Pricing System

- Carbon Levy

- » Same as carbon taxes
    - » Applied to non-industrial sector
    - » Revenue for any measure, including clean tech and efficiency

- Output-Based Pricing System

- » Applied to industrial sector
    - » Standard set as best in class (top quartile) for a type of activity/product
    - » Facilities that are below standard receive credits for future use or trade
    - » Facilities that are above standard must acquire credits or pay carbon price
    - » Can include carbon offsets

- Very complex – many regulations

# Ottawa Controls Agenda



- BC Carbon Tax Accepted
- ON/PQ Cap and Trade Accepted
- AB Hybrid System (similar to Canada backstop) Accepted
- Most of Canada Compliant
- Rest of Canada needs to adopt one of the options or face imposition of a system by Ottawa- “Backstop”
- National Backstop rules announced mid-May

# Implications for Atlantic Canada



- BC, AB, ON, PQ set the models – everyone else must adapt
- Carbon Tax sets a price – but no reductions in CO2 required
- Cap and Trade requires a benchmark and real reduction in line with Canada commitments
- Hybrid System includes both elements and is complex although does not require firm reduction targets
- Rules and definitions still being written
  
- The Devil remains in the details

# Implications for NS



- Negotiated Equivalency Agreement for Electricity
  - Renewable & GHG regulations already achieving best results in Canada but at a cost (CME argues for > \$30 tonne)
- Promising to do Cap and Trade for Other Sectors
  - Carbon credits for Cap and Trade system being granted at no cost to sectors and no revenue to province
- Baseline/Benchmark Details under Review
  - Environment Canada experts weighing in
- Provincial election implications

# Implications for NB



- NB Climate Change Action Plan Announced
  - Includes “establishing a made in NB price on carbon and caps on emissions that reflect reality of NB economy”
  - Appears to be leaning toward a hybrid-system
- Exploring options with NS
- May have a case for special treatment on electricity
- Reviewing federal backstop implications

# Implications for PE



- Announced a “flexible PEI approach to carbon pricing” last fall
- Very small industrial sector
- Agriculture is exempted from federal requirements
- Carbon Tax appears to be the best technical option with attendant economic impacts and political exposure
- Recent Energy Strategy promises significant investment in efficiency – carbon tax revenues could help fund

# Implications for NL



- In 2016 NL set the stage for industrial emission reduction with new legislation and reporting regulations
- Potential for Hybrid approach
  - 43% of emissions come from industrial facilities – output-based system would recognize the province’s relatively modern industrial facilities (offshore oil platforms)
  - Temporary gasoline and diesel taxes could be reissued as permanent carbon levies
- Complexities of Hybrid system

# Conclusion



- We didn't get to design carbon pricing systems but we will have to live with them
- Political leadership agreements don't cover details
- Time is running out
- Political risks are high
  - If you take the cash you take the blame