

May 10, 2019

CAMPUT 2019: The Elephant in the Room - the Uncertain Future of Carbon Pricing in Canada

By Zoë Thoms

Carbon emissions and the role of fossil fuel in Canada's energy future was not the official theme of the 2019 CAMPUT Conference, but these issues came up in a number of panels over the three-day conference. An interesting session on May 7, 2019 looked at carbon pricing, "The elephant in the room - the uncertain future of carbon pricing in Canada."

Moderator Robert Gabor, Chair of the Manitoba Public Utilities Board, started the session by noting that the carbon pricing landscape in Canada had shifted significantly since the panelists first began preparing for CAMPUT only eight months before. He asked the panel: what happened?

Phillip Cross, Senior Fellow of the Macdonald Laurier Institute, explained that in the early days of the development of the carbon tax, things were going well. High energy prices meant that the tax did not have to be set at a high price to achieve an impact. Further, there was political consensus among the federal and provincial government about the need for carbon pricing. Almost immediately, Mr. Cross explained, things started to unravel. The energy prices dropped sharply and there was a recognition that, due to the inelastic nature of demand for energy, a carbon tax would have to be much higher to effect change. Further, the original political consensus did not hold as provinces saw changes in government.

Pierre-Olivier Pineau, Professor, Department of Decision Sciences, HEC Montreal, also commented on what has happened to carbon pricing in Canada, noting that there had been uncertainty from the start. Some provinces moved forward with carbon pricing while federally, Canadians rejected the 2008 Liberal campaign built around a carbon tax and led by Stéphane Dion. Canadians have accepted this uncertainty to some extent. With respect to the current low price of the federal carbon tax of \$20 per ton of CO₂, Dr. Pineau stated that small steps were needed. If we don't start with small steps, Dr. Pineau argued, we will never get to the \$200+ level needed to drive change. Constantly debating the issue, Dr. Pineau stated, is simply delaying action.

Dr. Pineau identified the lack of trust that emissions will be reduced as one of the costs of not having a strong climate policy. Dr. Pineau suggested that if Canadians trusted that we were on track to achieve meaningful carbon emission reductions, there may be less objection to pipeline projects.

One of the questions put to the panel was whether cap & trade is a better policy than a carbon tax. Dr. Pineau noted that the good thing about a carbon tax is that it is simple for Canadians to understand and relatively easy for governments to implement and manage. However, there is a risk that you may not achieve an emissions reduction if people are willing to pay. Under cap & trade, the overall amount of emissions are limited and slowly reduced.

Mr. Cross highlighted another concern with carbon taxes. Originally, carbon taxes were supposed to be revenue neutral. Mr. Cross stated that this did not turn out to be the case when the taxes were implemented by the provinces. The result has been to overlay additional taxes without achieving any gains in efficiency.

In conclusion, Mr. Cross noted that how the carbon pricing debate in Canada unfolded (or unraveled) showed the limits of economics. He said that we do not yet have good models of the type of technological change needed to address emissions. Mr. Cross suggested that real solutions will come from technological change and that funding might be the most important role for government.

Dr. Pineau concluded by saying that technology will certainly help, but that we cannot wait. Technology that could make an impact on carbon emissions exists today, but the market prevents its adoption. Mr. Pineau argued that we need to make a business case for the technology and we need pricing signals like a carbon tax to support that. Economists will not solve all of the problems, Mr. Pineau stated, but we should listen to them. There are a lot of win-win solutions that we need to do a better job of communicating.

Author



Zoë Thoms
Associate
T 416.865.7755
zthoms@airdberlis.com

This communication offers general comments on legal developments of concern to business organizations and individuals and is not intended to provide legal advice. Readers should seek professional legal advice on the particular issues that concern them.