

Why would Canadians buy carbon pricing?

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About Canada 2020

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About the paper

This paper was prepared as background material for the Canada 2020 event 'How to sell carbon pricing to Canadians' on April 17, 2013 in Ottawa, Canada. It was written by Diana Carney, Canada 2020's Vice President of Research.

It joins other research and commentary written for our Squaring the Carbon Circle policy stream, one of five areas of work that comprise the Canada We Want in 2020 project.

Questions and comments can be directed to info@canada2020.ca.

1. Introduction

This paper provides background for our panel, *How to sell carbon pricing to Canadians*, that will take place in Ottawa on April 17, 2013.

We decided to host this panel, and work in this area, because of our concern over the disintegration of constructive debate about carbon management at a national level in Canada. The current deadlock is not good for our country, our democracy or for our planet.

The purpose of the panel is to open a dialogue that is respectful of all positions, so that we can begin to take steps towards improving the long-term future for all. If people are not convinced of the importance of controlling our carbon emissions, if they do not embrace change and take action, politicians will not either. The debate has to start somewhere.

A first step is to reignite enthusiasm for this topic through identifying a refreshed mode of discussion. We can then begin to define a constructive and positive course of action that is based on a common Canadian sense of purpose that enables us truly to lead in this area.

This is at the very heart of our vision for ‘The Canada We Want in 2020’.

2. Where are we now?

Canada is one of the worst per capita carbon emitters in the world. Aside from the Gulf States and a few tiny outlier countries, only Australia and the U.S. emit at a similar level to us. Our emissions are at least double the European per capita average, which, as of last year, is about the same as that of China.¹

Canada signed up for ambitious carbon reduction targets under the Kyoto accord in 1997. No serious, thoughtful or comprehensive action plan was ever put in place to meet them.² Arguably, this torpedoed the opportunity for constructive public and political discussion from the outset.

After 12 years of drastic underachievement, we finally announced our intention to withdraw from the Kyoto agreement in December 2011. To date we are the only country that ratified the treaty to have withdrawn. This was also the first time that Canada’s government had ever chosen to exit a legally binding treaty.

¹ EU data shows Canada emitting over 16 tonnes per capita (for fossil fuel use and cement production) <http://edgar.jrc.ec.europa.eu/CO2REPORT2012.pdf>. Environment Canada takes ownership of a more depressing 20.3 tonnes per capita overall. The European/Chinese figure is 7.5 tonnes per capita per annum. <http://www.guardian.co.uk/environment/2012/jul/18/china-average-europe-carbon-footprint>

² Although the Martin government did develop a plan in 2005 this was never implemented. See pubs.pembina.org/reports/Kyoto20050613_Meeting_Kyoto.pdf for details and discussion of the shortfalls.

Canada does, however, retain its 2009 commitment to a ‘politically binding’ Copenhagen target – aligned with the U.S. – of a 17% reduction below 2005 levels by 2020 (a target emission level of 607 million megatonnes per annum in 2020: in 2010 we emitted 692 megatonnes). Copenhagen commitments were intended to limit warming to two degrees. However, it has been apparent for many years that they are not sufficient to achieve this goal.

Reasons of geography and climate are to blame for at least some of our excess emissions. But it is equally valid to argue that these unique conditions should precipitate a singular urge to action, opening opportunities for real environmental and economic leadership.

At present, that is not happening. Canada has a stated objective to become an ‘energy superpower’. If we follow a traditional, fossil fuel based path to achieving this, our emissions will, by definition, continue to rise over time.³ This underscores the need for serious, science-based discussion of how Canada can square its carbon circle. How can we meet two, classically incompatible objectives: carbon emissions reduction and becoming a large-scale energy exporter?

3. How did we get here?

A key milestone in our journey to the unenviable spot in which we now find ourselves was voters’ rejection of the Liberals Party of Canada’s proposed Green Shift in the 2008 federal election. This took place in the fall of 2008 amid the BC NDP’s campaign to ‘axe the (carbon) tax’.

The BC NDP campaign both capitalized upon and furthered public opposition to the tax, particularly in rural and northern regions of the province. Interestingly, though, there are good grounds for arguing that it was the party’s stance on the carbon tax that was one of the main reasons why the NDP ultimately *lost* the 2009 election (and is now committed to supporting the carbon tax).

Federally the story has been quite different: the party that advocated carbon pricing was the one that lost the election. Rejection of the Stéphane Dion-led Liberals has been interpreted in a number of ways. There are those that argue that the Green Shift was too complex and not well-understood by voters. This line of argument holds that it was a lack of clarity and absence of effective marketing – not voters’ rejection of carbon pricing *per se* – that was to blame for its failure.⁴

Another view is that the Green Shift was fundamentally ill-conceived, that voters understood all too well what it meant for them but that that it did not align with their values – they were not ready to pay more for what they perceived as precarious, long-term gains – and thus they rejected it.

A third opinion holds that it was personal attacks on Dion that were mostly responsible for his election loss (and that the Green Shift policy was very much a secondary consideration). The NDP came out against carbon taxes a few days before the Green Shift was announced: united opposition from both sides of the spectrum (NDP and Conservatives) was certainly not helpful.

³ And let us remember that our emissions from transportation and other sectors are also rising.

⁴ The opposition were certainly successful in characterizing the policy as too complex, whether it was or not.

Two things are, however, beyond dispute. One is that Dion had not achieved a leadership position on carbon issues as Environment Minister in the Martin government (2004–6) and that he was not able to build a constituency in support of the Green Shift. The second is that this policy was proposed to voters at a time of intense and growing economic insecurity.

Indeed, it is recent economic uncertainty – which typically limits people’s concern for the long term⁵ – that may have been the greatest factor in reducing public concern for, and willingness to address, the long-run climate crisis. Add to this the difficulty of selling any ‘tax’ or ‘pricing’ and the magnitude of the challenge is apparent.

Historically, the most surprising piece in the carbon pricing puzzle has been that a cap and trade system was actually part of the Conservative platform in both the 2004 election (there was a stated commitment to ‘investigate’ such a system) and the 2008 election. In 2009 the Prime Minister claimed to be working with the provinces to develop such a system.⁶ Since that time he has entirely turned his back on carbon pricing and deliberately obfuscated by conflating the federal NDP’s call for a cap and trade system with carbon taxation (‘a tax on everything’).

Carbon taxation has been presented as a straight-up increase in day-to-day consumer costs, as evidenced by the survey question posed by Environment Canada in June 2012. Respondents were asked if they agreed with the following statement:

‘Canada needs to implement a federal carbon tax to promote energy efficiency and protect the environment, even though it means increasing the cost of things like gas and groceries for consumers.’

This type of treatment has effectively turned carbon pricing into a ‘third rail’ in Canadian politics, which is deeply problematic. Climate policy combines economic, energy, environmental, financial, and intergovernmental concerns: it is hard enough to make progress even without such mischaracterization of motives.

As an alternative to pricing carbon, today’s Conservative government has adopted what it terms a ‘systematic, consultative approach’ to emissions reduction.⁷ This is a sector-by-sector regulatory approach, closely aligned with the U.S. (especially in transport regulations). Whatever the merits of the approach⁸, it is undoubtedly both complex and slow: for example, regulations in the oil and gas sector have been under discussion for two years already and are still some way from being implemented.

⁵ In economic terms it raises people’s discount rates and the importance they attribute to proximate outcomes over more distant outcomes.

⁶ See <http://www2.macleans.ca/2012/09/21/a-rough-guide-to-the-conservatives-carbon-tax-farce/> for a timeline of Conservative commitments in the area.

⁷ Speech by Minister Kent at Chatham House, October 2012, <http://bit.ly/16ffySA>.

These adjectives are the government’s own and are disputed by many who argue that the approach is far from systematic and that ‘consultative’ amounts to little more than regulatory capture. However, the regulations are achieving something, following two decades of inaction.

⁸ NRTEE (2012) *Reality Check: The State of Climate Progress in Canada*. Ottawa: NRTEE.

The approach embraces the concept of ‘provincial equivalency’ whereby the mechanics of electricity sector regulation are left to the provinces so long as federal standards are met. This was made clear in 2012 when the federal government signed an Equivalency Agreement with Nova Scotia. There are pluses and minuses to such flexibility. On the one hand it allows provinces to chart their own future and in so doing captures some of the benefits of carbon pricing.⁹ On the other hand it could allow for loopholes and special privileges to develop.¹⁰

Meeting our Copenhagen commitments

Like governments that have gone before,¹¹ Canada’s current government continues to overstate its achievements.^{12,13} True, emissions appear to have been ‘decoupled’ from growth (economic growth no longer translates automatically into growth in emissions) and energy intensity has improved significantly within our economy over the past decade. But after a pronounced fall during the recession years, emissions are now almost certainly rising again (albeit at a somewhat reduced rate).¹⁴

The most immediate concern is, then, that the current approach will fall significantly short of yielding the reductions required to meet Canada’s stated target (17% below 2005 levels by 2020). Indeed, there is presently no basis for a serious claim that we will meet our Copenhagen commitment. Current Environment Canada projections are for a 113 megatonnes shortfall in reduction by 2020 (that is assuming that all the measures and regulations that governments across Canada are putting in place have the desired effect). That would mean that we will have succeeded in reducing emissions compared to 2005 levels by only 20 megatonnes or less than 3%.¹⁵ No government could be proud of such ‘achievement’.

Unfortunately, constructive dialogue on how we might reduce the gap has ceased, and name-calling has taken its place. Carbon pricing of any type is characterized as a ‘tax on everything’. This serves neither the goals of the government nor the well-being of Canadians, particularly since it is far from clear that the targets to which we are committed are adequate for the long term.¹⁶

⁹ International Institute on Sustainable Development policy brief, ‘Regulating carbon emissions in Canada’ http://www.iisd.org/pdf/2012/regulating_carbon_canadian_policy.pdf

¹⁰ So, for example, provinces might make investments that do not yield actual emissions reductions.

¹¹ Canada 2020 opinion piece: ‘Why is the timing never right for action on climate change?’ Available online at <http://canada2020.ca/squaring-the-carbon-circle/opinion-why-is-the-timing-never-right-for-action-on-climate/>

¹² Green Party of Canada blog: ‘Missing Copenhagen target’ <http://www.greenparty.ca/blogs/7/2013-03-15/missing-copenhagen-target>

¹³ ‘Canada remains fully committed to doing our fair share to address climate change at home and abroad. We have an approach and we are confident that it is working’. Speech by Minister Kent at Chatham House, October 2012, <http://bit.ly/16ffySA>.

¹⁴ There is a two year lag before emissions figures are released so we are still working with 2010 figures.

¹⁵ Another way of looking at this is we only have measures in place that will achieve half of the reduction required by 2020 (this is the basis for government’s ‘we are half way there already’ claim).

¹⁶ Price Waterhouse Coopers report: ‘Low Carbon Economy Index 2012’ http://www.pwc.com/en_GX/gx/low-carbon-economy-index/assets/pwc-low-carbon-economy-index-2012.pdf

4. Changing the debate

As a starting point for our efforts to launch a new dialogue, let us take the Government of Canada at its word and assume that it does want to lead. This would seem to be a reasonable strategy on the government's part, particularly as it would allow it to distinguish itself from the previous Liberal government and would avoid conjuring up a sense of Kyoto déjà vu.

Our task, then, is to help define the actions and harness the will that will get Canada to the goal of a 17% reduction. Put another way, how can we help Canadians take steps to reduce carbon emissions by an additional 14% by 2020? And how can governments at all levels be brought along?

Why do we need to do this? The principal reasons are as follows.

The problem is getting bigger all the time

Globally, and domestically, emissions continue to rise. The effects of climate change – both increased extreme events such as drought and flooding and acceleration of longer-term trends such as sea level rise and Arctic warming – are being widely experienced. The weather is increasingly erratic and difficult to predict.¹⁷ Most people now believe that climate change is real, man-made and responsible for a plethora of negative impacts.¹⁸

A decade or so ago it was the norm amongst commentators and policy-makers to target a maximum two-degree rise in global temperatures. Given our desultory performance on limiting emissions and the persistence of impact over time from already accumulated stocks of carbon dioxide,¹⁹ many have now accepted – tacitly or otherwise – that the two-degree target is out of reach. Even meeting Copenhagen targets – which we and other countries are not on schedule to do at present – will not be sufficient.

A recent Price Waterhouse Coopers (pwc) report (*Too Late for Two Degrees*²⁰) notes that:

Even doubling our current rate of decarbonisation, would still lead to emissions consistent with 6 degrees of warming by the end of the century. To give ourselves a more than 50% chance of avoiding 2 degrees will require a six-fold improvement in our rate of decarbonisation.

¹⁷ Guardian Newspaper, 'The Science Behind Britain's Coldest Easter'

<http://www.guardian.co.uk/uk/2013/apr/07/science-behind-britain-coldest-easter>

¹⁸ Even the most skeptical are now being converted: a recent US survey found 52% of Republicans agreed that climate change was real.

http://climatechangecommunication.org/sites/default/files/reports/Republicans%27_Views_on_Climate_Change_2013.pdf

Polling in 2012 showed that 57% of Canadians felt that climate change was real and caused by human activity while another 28% felt it was real but not conclusively man-made.

¹⁹ Grist blog post, 'Two reasons Climate Change is not like other environmental problems'

http://grist.org/climate-energy/two-reasons-climate-change-is-not-like-other-environmental-problems/?utm_campaign=weekly&utm_medium=email&utm_source=newsletter

²⁰Price Waterhouse Coopers report: 'Low Carbon Economy Index 2012' http://www.pwc.com/en_GX/gx/low-carbon-economy-index/assets/pwc-low-carbon-economy-index-2012.pdf

The magnitude of the change implied by a six-degree rise in temperature is almost unthinkable. Self-reinforcing positive feedback loops would be triggered, threatening the very future of life on earth.

We have to get on with decarbonisation now. If any country should be able to see this clearly, it is Canada, as the Arctic is warming at twice the global rate.

Other countries are moving ahead

Canada has prided itself on taking a strong and principled stance in the international arena on issues from finance to human rights, democratic reform, the rule of law, religious freedom and gender equity. We have also, traditionally, prided ourselves on being realistic, 'hard nosed', science- and results-oriented. This reputation is placed at risk by our stance on carbon, which has earned us the dubious accolades of being a fossil²¹ and a pariah.²²

In the meantime, peer nations and regions such as Australia (2012), California (2013) and Ireland²³ (2010) have all introduced carbon taxes in the past three years. This puts Canada at a moral – and potentially long-run economic – disadvantage.

We have a moral responsibility to lead

It is true that Canada's emissions, while amongst the highest on a per capita basis, account for a small (c. 2%) fraction of global emissions.²⁴ Far from giving us license to proceed as if we do not matter, this position could provide us with an opportunity to lead, particularly since we **do** have the economic capacity to do so, unlike many countries.

Faced with a classic collective action problem, known as 'the tragedy of the commons' (all nations would collectively benefit from action but it is in no nation's interest to act unilaterally, indeed it is most nation's interest to free ride on the efforts of others) and no effective enforcement mechanisms, moral leadership – doing the right thing – is essential. Canada's government tacitly acknowledges this when it claims leadership and success on the climate front.

The current impasse serves nobody's interests

Climate change is simply too important an issue to be hidden behind a wall of disinformation, bluster and politics as usual. All federal parties have played a role in getting us to where we are: now is the time to move on. Countries that have progressed in this area in recent years have

²¹ Climate Action Network blog post, 'Canada wins fossil of the year award in Durban'
<http://climateactionnetwork.ca/?p=26720>

²² Guardian Newspaper article, 'Canada the surprise pariah of the Kyoto protocol'
<http://www.guardian.co.uk/world/2012/nov/26/canada-kyoto>

²³ Citizens Information resource site, 'Carbon Tax'
http://www.citizensinformation.ie/en/money_and_tax/tax/motor_carbon_other_taxes/carbon_tax.html

²⁴ Government of Canada website, Environment Canada information on Greenhouse gas emissions
<http://www.climatechange.gc.ca/default.asp?lang=En&n=21654B36-1>

benefitted from a societal consensus that has transcended short-term political thinking. What is preventing Canada from following their lead?

While there may well be short-term trade offs between economic gain and climate action (and, importantly, the burden will not be equally shared by individual or region) we cannot be clear how serious these will be. Studies point to 'low growth' as opposed to 'no growth' and, looking to the long term, there may be considerable convergence.²⁵ New types of growth appear possible, with the right types of investment.²⁶ This is positive and should provide the starting point for a far more constructive dialogue in the years ahead.

5. What about the provinces?

Before thinking more about the broad parameters of the dialogue, it is worth taking a look at what is going on at provincial level here in Canada. Overall, the provinces have been far more creative in their approach to carbon management than the federal government, and it is at provincial level that some genuine progress is being made.

British Columbia's carbon tax stands out. It was introduced in 2008 at \$10 per tonne. It survived the NDP challenge in the 2009 election and now stands at \$30/tonne. A review conducted in 2012 concluded that: the carbon tax is working (fossil fuel consumption and emissions are down both absolutely and in comparison with other provinces); and that businesses are not unduly disadvantaged. In fact some businesses have benefitted significantly: the wood pellet and carbon-neutral bio fuel opportunities may have provided a lifeline to the forest industry.

Submissions to the 2012 review were 75% positive²⁷ and a separate poll by Pembina²⁸ showed that the majority of B.C. residents now support the tax. Despite this, the current B.C. Premier, Christy Clark, committed in early April 2013 to freezing the carbon tax for five years should the party achieve re-election. The B.C. NDP, now in favour of carbon pricing, opposes this stance.

The defining feature of the B.C. tax has been its revenue neutrality. Revenues raised are returned to residents through cuts in personal and business taxes. Indeed, when the tax was first introduced, a commitment was made that the Finance Minister would be penalized if audited statements did not show how every carbon tax dollar was returned, in either personal or corporate income tax reductions. This made a policy that was difficult to believe (if not to understand) more marketable.

Revenue neutrality has made it possible to promote the tax as good for the environment and good for voters too. This line of argument was particularly critical in the 2009 election, when economic

²⁵ The Confederation of British Industry has called the 'green versus growth' story a 'false choice'.
<http://www.cbi.org.uk/media-centre/press-releases/2012/07/green-or-growth-is-a-false-choice---cbi-chief/>

²⁶ Unfortunately, Canada also lags in sustainable finance.

²⁷ Pembina Institute blog, 'B.C. concludes carbon tax is working, but rejects important next steps'
<http://www.pembina.org/blog/690>

²⁸ Pembina Institute news release, 'British Columbians will to pay more carbon tax: poll'
<http://www.pembina.org/media-release/2377>

security was certainly top-of-mind. The tax was presented as a win-win for the economy – because it would help increase productivity and competitiveness while lowering personal and corporate tax rates – and the environment.

Alberta introduced its carbon pricing system – known as the Specified Gas Emitters regulation – a year before B.C., in 2007. As the name suggests, this is not a generalized system of carbon pricing. Instead it sets intensity targets for different industries and requires companies that emit more than 100,000 metric tonnes of CO₂ equivalent each year to reduce emissions intensity by 12% below their 2004 – 2005 baseline intensity annually.

Facilities have four options to reach their regulated targets. They can:

- improve emissions performance directly;
- purchase credits from other facilities that have exceeded their targets;
- make payments at a rate of \$15 per tonne into an arms-length technology fund, the Climate Change and Emissions Management Corporation (CCEMC); or
- purchase credits for emissions reductions from projects in Alberta that take place outside of the regulated facilities (i.e. offset credits).²⁹

The CCEMC is an independent organization that invests the money it receives (\$313m by January 2013) in projects that support energy efficiency, adaptation, the greening of energy production and, most recently, finding alternative uses for carbon.

There are a number of flaws in the Alberta system. For instance, it discourages any investment in efficiency that costs more than \$15/tonne; the target reduction of 12% is far from ambitious, even if reached; and there is no guarantee that CCEMC spending will result in effective emissions reduction. Nonetheless, following this year's review, it may end up standing as a model for federal efforts in regulating the oil and gas sector.³⁰

Interestingly, in the same week that the B.C. Liberals vowed to freeze the carbon tax, there were musings from Alberta about taking on a leadership role by targeting 40% intensity improvements and charging \$40/tonne rather than the current \$15 for missed improvements (still well shy of what the Pembina Institute estimates is necessary for the oil and gas sector³¹). The new stance is likely a response to the current difficulties in securing approval for the Keystone XL pipeline, rather than reawakened climate consciousness. Nevertheless, were Alberta to move ahead it would be hard for other provinces – which are far less reliant on the oil and gas sector – to resist the forward motion.

²⁹ Climate Change Emissions Management Corporation website <http://ccemc.ca/about/>

³⁰ Pembina Institute report (2013) *Getting on Track to 2020*. <http://www.pembina.org/pub/2427>.

³¹ Ibid. The authors argue for at least a 42% improvement in intensity within the oil and gas sector in order to meet Copenhagen targets.

It should also be noted that the new proposal has already elicited a ‘positive’ response from the oil and gas sector. While the Canadian Association of Petroleum Producers has rejected the 40/40 proposition it has counter-proposed a 20/20 plan, which can be taken as tacit acknowledgement that more needs to be done.³²

Quebec joined the Western Climate Initiative in 2008.³³ Its cap and trade system was formally launched, in tandem with that in California, on January 1, 2013. In the first phase of the system 80 industrial facilities which exceed the annual threshold of 25,000 tonnes of CO₂ emissions are covered. Starting in 2015 a further range of emitters, largely those involved in fuels distribution (so linking to domestic fuel consumption), will be added.³⁴ Companies benefit from an initial allocation of permits (at no cost). The cap is not, however, fixed. Permits to exceed it can be purchased at auction (starting August 2013, in parallel with California). The minimum permit price will be \$10/tonne.³⁵

Quebec’s goal is to reduce carbon emissions to 20% below 1990 levels by 2020. This is significantly beyond Canada’s Copenhagen targets, which take a baseline of 2005 and calls for a 17% reduction. Meeting the target will be particularly challenging for Quebec given that around 97% of its electricity is already generated through largely emission-free hydro.

Although **Ontario** has not placed a price on carbon, its commitment to phasing out coal fired electricity generation has probably been the single most significant step towards reducing Canada’s carbon emissions. Emissions of CO₂ from coal plants decreased by nearly 90% between 2003 (when they stood at 41 million tones annually) and 2011. Coal generation is due to be phased out entirely by the end of this year (ahead of schedule).

There is, then, a fragmented, though intermittently vibrant, approach to carbon reduction at the provincial level in Canada. This patchwork represents a high-cost approach to carbon regulation, allows for the possibility of double-counting of achievements (if trading and offsets are allowed) and means that some provinces are presently achieving very little.

On the plus side, real progress is being made and those provinces that are minded to move forward can do so without waiting for country-wide consensus. The bottom-up approach also eliminates the risk of wholesale retreat on carbon pricing, which could take place in a top-down system if political support were to evaporate from one election to the next.

³² Globe & Mail article, ‘Alberta industry face wide gap on carbon tax’
<http://www.theglobeandmail.com/report-on-business/industry-news/energy-and-resources/alberta-industry-face-wide-gap-on-carbon-tax/article10911280/>

³³ An initial grouping of Quebec, Ontario, BC, Manitoba and California that came together to support a flexible, market-based cap and trade system (<http://www.westernclimateinitiative.org/wci-partners>).

³⁴ Government of Quebec website, The Quebec Cap and Trade System for Greenhouse Gas Emissions Allowances <http://www.mddefp.gouv.qc.ca/changements/carbone/Systeme-plafonnement-droits-GES-en.htm>

³⁵ Compare this with the current European Union carbon price which has fallen to around \$5/tonne from a 2011 high of \$23/tonne.

The challenge now is to ensure we capture all relevant lessons from provincial efforts and build these into an effective, action-oriented narrative for Canada as a whole.

6. From wedge to way forward: what makes this so difficult?

Getting from here to there – from the current dialogue deadlock to a constructive and inclusive conversation and a shared and effective plan for climate action – remains a huge challenge.

Top-level questions for our panel are:

- How can we re-establish a constructive debate about carbon?
- Why have Canadians resisted carbon pricing?
- Would they accept a new way forward now?
- And, how far might they be willing to go?

To answer these questions we need to be honest and non-political.

To build a consensus for action we must start by eliminating jargon and trite solutions and talking candidly to people about the hurdles, but also the possibilities for change and their likely impact.

Secondary questions for the panel are:

What can we learn from within Canada?

We are fortunate to have a range of domestic lessons to draw upon. It behooves us to be very deliberate in our learning.

It is from the B.C. experience that we should be able to learn the most. The 2009 election there showed that pricing carbon can be feasible, politically. Perhaps it even demonstrated the possibility that a party can ‘own’ the environment and the economy at the same time – that the two sides are not necessarily in conflict?

So what were the strengths of the B.C. plan? It was clear and predictable: people paid more for some things (the ‘bads’) but got money back in income tax, both personal and corporate (the ‘goods’). Despite this, many still do not understand it. Polling by Pembina in 2012 showed that 30% of respondents either had not heard of the tax (2.7%) or were not familiar with it (27.1%). Only 13.5% were ‘very familiar’ with it.³⁶

³⁶ Pembina Institute news release, ‘British Columbians will to pay more carbon tax: poll’
<http://www.pembina.org/media-release/2377>

Perhaps the relative robustness of B.C.'s economy (which has outperformed Canada since 2004) was the critical issue? What other reasons might there have been for success? And which are relevant at the federal level?

What can we learn from other countries?

Are there lessons that we can learn from other countries about the particular conditions – or constellation of interests – that have facilitated the introduction of carbon pricing? Have there been approaches to building grassroots electoral support that have proven particularly effective? And how is public goodwill effectively translated into action?

Another interesting question is whether other countries – especially those that have adopted some form of carbon pricing – are faring better than Canada in new 'clean' or 'green' markets? Setting a price on carbon should, in the medium to long term, help stimulate innovation and open up new markets. Is this happening? And, if so, how can this become part of the narrative around selling carbon pricing to Canadians?

Finally, are there lessons to be learned from the European Union experience with emissions trading (the ETS) and the collapse in prices in secondary carbon markets in that continent?³⁷ What does this tell us about cap and trade in general? And what specific lessons can we draw about such design issues as the allocation of permits, the opportunity to buy offsets, the need for floor prices for carbon, etc. ?³⁸

How do we identify shared purpose and overcome the schisms that divide us?

There has been a tendency in Canada for both political parties and the mainstream media to cast carbon regulation as an 'us *versus* them' issue, a zero sum game. The truth is far more complex: we all have a role to play, and while it is necessary to have a functional debate about burden sharing, it is important that this does not turn into an exercise in burden shifting.³⁹

How do we get over this and find a made-in-Canada solution that works for Canada while demonstrating leadership for the world? Our intention in starting this dialogue is to try to identify and build upon Canadians' many shared interests as a basis for action. How can we best do that? Are there strategies that are likely to be more or less (a) effective and (b) publicly palatable? (Perhaps including looking to the provinces as the real leaders – despite their vary varied economic interests – and trying to animate progress from the bottom.)

³⁷ Financial Times article, 'EU emissions trading faces crisis' http://www.ft.com/intl/cms/s/42e719c0-63f0-11e2-84d8-00144feab49a,Authorised=false.html?_i_location=http%3A%2F%2Fwww.ft.com%2Fcms%2Fs%2F0%2F42e719c0-63f0-11e2-84d8-00144feab49a.html&_i_referer=#axzz2Pzx3RDzf

³⁸ For example, the ETS allows for the purchase of third country offsets but there has been an excess of these available and there is a good degree of skepticism as to their validity.

³⁹ Globe & Mail article, David McLaughlin, 'Alberta's carbon problem is Canada's too' <http://www.theglobeandmail.com/commentary/albertas-carbon-problem-is-canadas-too/article10341330/>

The public is aware and concerned about climate change but is also aware that Canada alone cannot fix it. An integrated approach that balanced economic development with environmental protection typically finds favor with Canadians. To what extent do they see today's situation as unbalanced? And how might this be helpful in guiding the debate?

Much of the messaging Canadians hear on climate change and carbon pricing is apocalyptic, extreme, and fearsome. Does this work to raise awareness or simply turn people off as being unable to cope? We need to find ways to communicate a complex issue such as climate change, with admittedly difficult solutions such as carbon pricing, without alienating the public.

Are there better or worse ways to market carbon pricing?

The fact that B.C. has largely embraced a carbon tax, while the Green Shift was rejected at a federal level, suggests that there are better and worse ways to both design and market carbon pricing.

Interestingly, Pembina polling in B.C. has shown that people are more willing to support an increase in the carbon tax if the money is used to for things such as 'green infrastructure' (public transportation, energy efficient buildings) and other government services (health, education), as opposed to further reductions in personal and corporate income tax.⁴⁰ It is certainly worth triangulating this finding to help understand how design influences support.

At a deeper level it is important to understand how carbon pricing is best linked in people's minds to beneficial economic outcomes? Are there lessons from the disciplines of psychology and/or game theory that would feed into the design of both a carbon pricing system and a campaign to build support for it?

One area of concern typically relates to the potential for countries that unilaterally adopt carbon taxes to be at a competitive disadvantage in the global economy. How is this concern best dealt with? Can carbon pricing effectively include border-adjustable tariffs, as one of our panelists, Bob Inglis, proposes? Do we have adequate environmental accounting tools to calculate what these should be across a range of countries, industries and firms?

Some – perhaps including Canada's federal NDP party – argue that a cap and trade system is easier to market than generalized carbon pricing, because it seems to place the onus on the big emitters (though they, of course, pass this on to the consumers in due course)? What are the merits of this argument? Some would argue that the transactions costs associated with cap and trade are too high and that the opportunities for fraud are too great.

Former NASA scientist and prominent climate advocate, James Hansen, is strongly against cap ('tax') and trade. His preferred scheme is a 'cap and dividend', revenue neutrality writ large as revenues raised are returned to individuals as in the form of personal cheques.⁴¹

⁴⁰ Pembina Institute backgrounder, 'British Columbians' perspectives on global warming and the carbon tax <http://www.pembina.org/pub/2376>

⁴¹ United States Government, testimony to House of Representatives Ways & Means Committee, 'Carbon Tax & 100% Dividend vs. Tax & Trade' http://www.columbia.edu/~jeh1/2009/WaysAndMeans_20090225.pdf

A really interesting question is whether inter-generational moral responsibility is a marketable approach to carbon regulation? One strand of thinking is that empathy for future generations might act as a real catalyst for action.⁴² Certainly linking people's current actions to the future of their own descendants is likely to play a role in galvanizing support.

What should we be aiming for?

How are targets set? And how should they be set? What relationship do they have to outcomes (or counterfactual risks)? And do they impact support levels for carbon pricing?

To answer these questions we perhaps need to think about what end goals might best animate the discussion. For example, would it be possible to conceive of implementing and escalating a revenue-neutral, federal carbon pricing system that would ultimately allow for all (federal) personal income tax to be eliminated? Would such policy innovation reinvigorate the debate? It would certainly offer a quick way to restore Canada's global leadership!

Does our relationship with the U.S. constrain or advantage us?

One of the principles behind the Canada's approach to carbon management has been close cooperation and coordination with the U.S. This part of our government's messaging seems to resonate with the general public, which is highly aware of Canada's intense economic dependence on the U.S.

This relationship can, though, act as an 'excuse' for inaction. The current federal government's retreat from cap and trade can be at least partially traced to the apparent rejection of President Obama's cap and trade proposals in the November 2010 mid-term elections.⁴³

How, then, do we get the best out of our relationship with the US? One thought is that pressuring U.S. NGOs to secure more demanding commitments from the government there might, in the medium term, precipitate action here in Canada (as we would no longer be able to hide behind the fear of economic disadvantage caused by taking unilateral decision on carbon).

And if progress in the U.S. is stalled for domestic political reasons, how should we respond? Can we identify particular shared areas of policy in which Canada might lead, not lag?

7. Is there a glimmer of hope right now?

Our goal is to reignite the debate on carbon pricing and, in so doing, begin building towards a plan with which all (or at least the majority) of Canadians identify. Such a plan would help us, in the first instance, achieve our Copenhagen targets. In the long run it would help us secure a desirable future for our country and our children.

⁴² Stockholm Environment Institute briefing document, 'Reason, Empathy and Fair Play: the Climate Policy Gap' <http://www.sei-international.org/publications?pid=2113>

⁴³ But this relationship can also act as an 'excuse' for inaction.

In closing, it is worth considering whether the particular confluence of factors that we are witnessing right now, might give us some grounds for optimism. Certainly, in the U.S., the fiscal crisis has given birth to an active debate over the past few months about the merits of carbon taxation as a means of raising revenue.⁴⁴ But what of Canada? Our fiscal situation is not nearly as severe, so we must look to other possible catalysts or openings for progress. Arguably some are emerging right now. They include:

Increased private sector acceptance of the need for action on carbon

A number of companies in Canada – including several in the oil and gas sector⁴⁵ – are adopting their own internal shadow carbon prices so that they can be adequately prepared should a carbon price be introduced. This both helps limit uncertainty for corporate planning purposes and also enables companies better to identify future opportunities – such as those around carbon capture and sequestration – which will exist only when a price is placed on carbon.⁴⁶

In the corporate world, and within the Alberta government, there does appear to be emerging recognition that our current stance on carbon is jeopardizing our economic future.⁴⁷ If Keystone XL is rejected because we do not have adequate environmental standards in place, that will certainly validate the fear, as will failure to penetrate the booming Asia markets for green technology.⁴⁸

Another concern at corporate level may be that we are not adequately managing downside risk. The costs of inaction on climate are growing (as evidenced in the need to reconstruct infrastructure in the north as the permafrost melts) which will have a serious impact on companies' bottom lines.

We are still far from seeing general corporate support for carbon pricing. But the glimmer is there and – so long as that is the case – it will be critical to fan the flames. How is this best done?

Some improvement in the public dialogue around carbon

Whether due to the increased incidence of extreme weather events or the induced debate around pipelines, bitumen prices and oil spills, there does seem to be a glimmer here also. Increasing public discussion about alternative futures for Canada – with and without massive oil sands expansion (and the government royalties and associated federal equalization transfers) – is inherently a good thing.

⁴⁴ For example: <http://www.nytimes.com/2013/03/17/opinion/sunday/friedman-its-lose-lose-vs-win-win-win-win-win.html?ref=thomasfriedman&r=0>. This is also a factor in Ireland:

http://www.hamiltonproject.org/files/downloads_and_links/THP_15WaysFedBudget_Prop11.pdf

⁴⁵ Sustainable Prosperity report (2013) 'Shadow Pricing in the Energy Sector'

<http://www.sustainableprosperity.ca/article3430>

⁴⁶ Business Week article, 'Why Canada's oil industry wants a carbon tax'

<http://www.businessweek.com/news/2013-01-31/why-canada-oil-sands-industry-wants-co2-tax-harper-hates-energy>

⁴⁷ The first indication of this came with the discussion around the European Fuel Quality Directive.

⁴⁸ Rocky Mountain Institute blog, 'Asia's accelerating energy revolution'

http://blog.rmi.org/blog_2013_03_26_2013_Aσίας_Accelerating_Energy_Revolution

The Obama administration's emphasis on carbon management

Canadians generally hold President Obama in high regard. The President's prioritization of climate issues (in the most recent State of the Union address, particularly) has left many wondering why our own government is avoiding engaging with the public on these issues. And if the U.S. does move forward federally – for example with new EPA rules on coal-fired generation – Canada will find it hard to be left behind. The possibility for U.S. leadership on climate pricing has been heightened by the fiscal crisis in that country. A number of commentators have suggested that climate pricing might represent the best revenue raising opportunity: a win-win for the economy and the environment.⁴⁹

Increased concern about Canada's loss of status, globally

Our government's reticence on environmental issues and its unwillingness to yield scientific and other information is of increasing concern, domestically.⁵⁰ Arguably it is the elite who are most exercised at present, but elites do shape opinions in the long run. Our failure to secure a seat on the UN Security Council and our willingness to turn our back on a series of international fora (Kyoto agreement, UN Convention on Desertification) are seen by many as a threat to our global influence. Our stance on carbon feeds into this. If there is sufficient concern, this may be a catalyst for action.

Building on these factors, we hope that our panel will provide the necessary opportunity to rekindle the dialogue about how we can meet our Copenhagen commitments, in the first instance. When we meaningfully answer the question: 'Why would Canadians buy carbon pricing?' we will be well on our way to restoring the public discussion, debate and decisions that will set the successful course for Canada's carbon reduction strategy for years to come. If there is indeed a glimmer of hope right now we must be poised and ready to fan the flames.

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Responsibility for any errors and omissions rests with the author alone.

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⁴⁹ New York Times op-ed by Thomas Friedman, 'It's lose-lose vs. win-win-win-win-win' (March 2013)

⁵⁰ The latest incident occurred when the government blocked the transfer of the NRTEE's archive to Sustainable Prosperity.

Appendix: Key carbon data

The world's top carbon emitters (2010)

On a per capita basis (tonnes)		On an absolute basis (megatonnes)	
Netherlands Antilles	33.79	China	8,900
Trinidad & Tobago	32.68	USA	5,530
Qatar	33.44	India	1,860
Kuwait	29.48	Russian Federation	1,780
Brunei Darussalam	22.75	Japan	1,260
United Arab Emirates	22.20	Germany	840
Bahrain	21.93	South Korea	590
Luxembourg	20.54	Canada	540
Australia	17.90	UK	500
USA	17.80	Indonesia	490
Canada	16.00		

Source: Emission Database for Global Atmospheric Research. <http://edgar.jrc.ec.europa.eu>

NB. Note that figures vary somewhat. These are for CO₂ as opposed to total greenhouse gas emissions. Canada usually appears as a top 10 emitter based on total GHG emissions.

Canada's commitments and targets

Kyoto Protocol

Signed in 1997, ratified in 2002, withdrew in 2012

Target: 6% reduction by 2012 from baseline emissions of 461 megatonnes (mts) in 1990

Copenhagen Agreement

Signed in 2009, based on 2 degree warming target, legally non-binding

Target: 17% below 2005 levels by 2020 or 607mts per year by 2020

Projected achievement: Environment Canada predicts a 113mt shortfall in reduction by 2020

Provincial commitments and targets

British Columbia

Carbon tax introduced in 2008 at \$10/tonne, now at \$30/tonne

Target: 33% below 2007 levels by 2020 and 80% below by 2050.

Alberta

Specified Gas Emitters Regulation obliges companies in specific industries that emit more than 100,000 tonnes of CO₂ to reduce intensity over 2004-5 levels by 12% annually or pay a \$15 levy

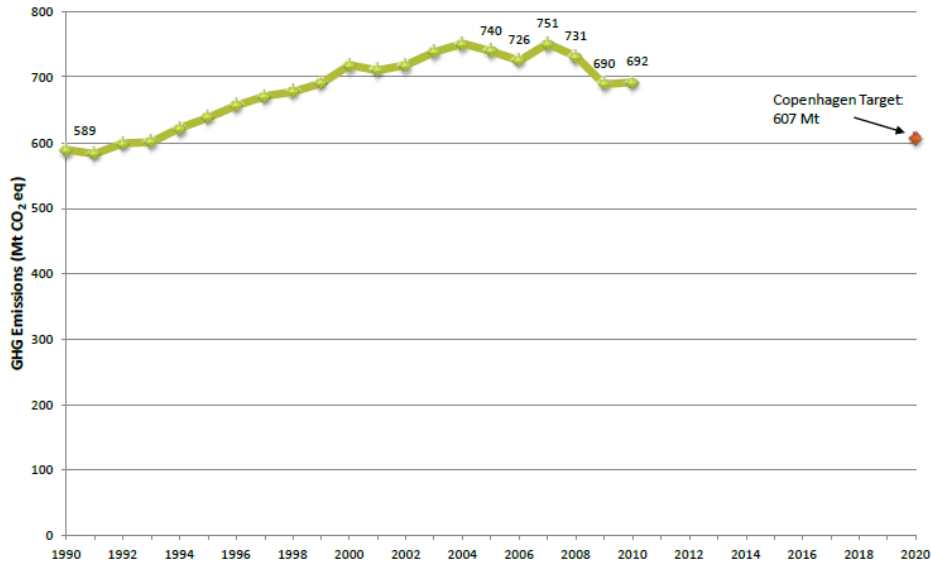
Quebec

Cap and trade system launched in January 2013

No firm cap: minimum permit price \$10/tonne

Target: Reduce emissions to 20% below 1990 levels by 2020

Canada's greenhouse gas emissions 1990-2010



* The 607-Mt target is equal to 17% below the 2005 emissions level of 731 Mt reported in *The National Inventory Report: Greenhouse Gas Sources and Sinks in Canada 1990-2008*, published in April 2010.

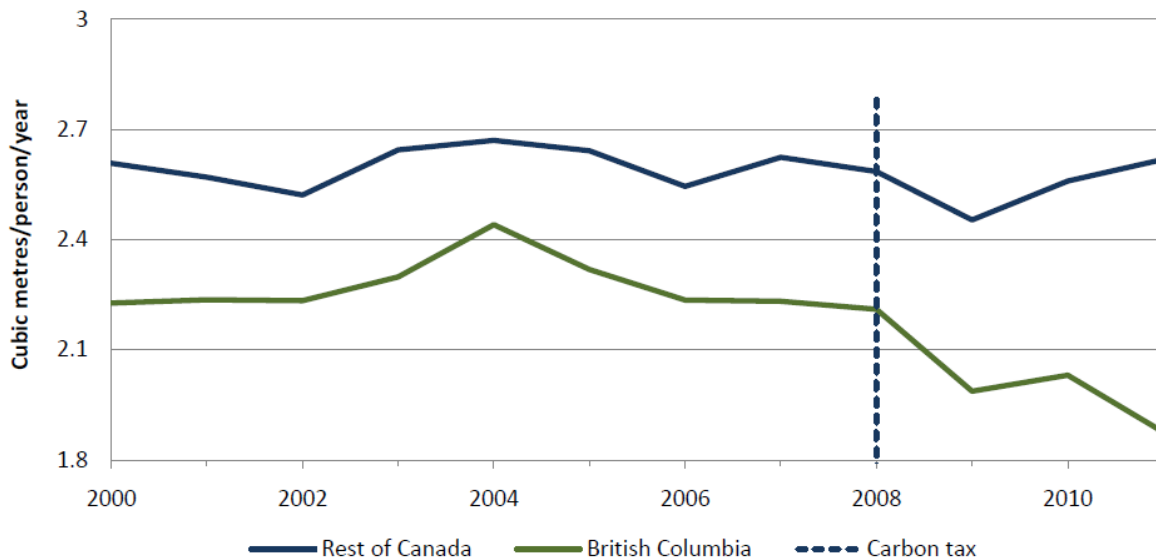
The impact of the B.C. carbon tax

Per capita consumption of refined petroleum products subject to the B.C. carbon tax (% change)

Jurisdiction	2008	2009	2010	2011	2008-2011
British Columbia	-1.0%	-10.1%	2.2%	-7.6%	-15.1%
Rest of Canada	-1.5%	-5.1%	4.3%	2.3%	1.3%
Difference	0.5%	-5.0%	-2.1%	-9.9%	-16.4%

Source: Statistics Canada

Sales of refined petroleum products subject to BC carbon tax, per capita



Source: Statistics Canada