

# Summary

Clearing the Air on Federal and Provincial  
Climate Change Policy in Canada  
*Tracy Snoddon and Randall Wigle*

Climate change policy in Canada today is fragmented and largely uncoordinated among governments. Many provinces, frustrated by the perception that Ottawa has not been proactive enough in setting national targets for greenhouse gas emissions reductions, have independently embarked on their own policies to reduce emissions. The resulting patchwork of measures illustrates the complexity of achieving coherent policy when both levels of government intervene in the same policy arena.

In this study, Tracy Snoddon and Randall Wigle examine climate change policy in Canada from the perspective of “environmental federalism.” Most other analyses on this issue have sidestepped the fact that Ottawa shares jurisdiction with the provinces, which means that both levels of government have access to any tax revenues that might be generated by emissions-reduction measures. This “inconvenient truth” of the Canadian federation, combined with the fact that greenhouse gas emissions are highly concentrated in specific provinces (notably Alberta and Saskatchewan), makes it all the more critical that we understand the interaction of federal and provincial policies, and how their effects vary regionally, in order to develop effective policy instruments.

The authors demonstrate that a national climate change policy using a market-based instrument (e.g., a carbon tax or tradable emissions permit system) would be much more cost-effective than the patchwork of federal and provincial programs that exists today. Their economic simulations show that provincial climate change policies to supplement national efforts are likely to have little effect on Canada’s overall greenhouse gas emissions and will come at a substantial economic cost. The main reason is that differences in the stringency of provincial policies simply change the provincial distribution of emissions rather than actually reducing them overall. Emissions-intensive economic activity is encouraged, where possible, to migrate to provinces with more lenient emissions standards.

Many observers suggest that it is wishful thinking to hope there could be a national climate change policy, because emissions-intensive provinces will vehemently resist efforts to be subject to the same requirements as other provinces. However, Snoddon and Wigle point out that the way revenues generated from market-based emissions-reduction instruments are allocated would

have a dramatic effect on the net economic costs of reducing emissions across provinces. For example, if the revenues from a carbon tax (or from auction of emissions permits in a cap and trade system) were returned to the provinces in accordance with their initial shares of emissions, the net economic burden on emissions-intensive provinces could actually be modestly lower than that on most other regions of the country.

The authors propose an ambitious national policy that is much more cost-effective than the patchwork status quo, and offer a road map for implementing it. The centerpiece of their proposal is a federal carbon tax, initially set at \$10 per tonne of CO<sub>2</sub> equivalent, and rising gradually to about \$35 by 2030. Such a tax could be implemented relatively quickly (unlike a system of tradable emissions permits) and, if necessary, without agreement from the provinces. However, Snoddon and Wigle stress that its political success hinges on convincing the provinces to drastically scale back their own climate change initiatives in favour of a more cost-effective national plan. They argue that Ottawa must negotiate formal agreements with the provinces for sharing any revenues generated from the proposed tax, rather than simply using them to reduce federal taxes or fund federal programs. Such revenue-sharing agreements would recognize that environmental protection is a shared federal-provincial responsibility, and that the provinces must be compensated for allowing Ottawa to set the parameters of Canadian climate change policy. Revenue sharing would also ensure that no province bears an undue economic burden for meeting national emissions-reduction targets.

Another advantage of a national carbon tax is that it could easily be integrated into a continental climate change policy regime in the event that the ambitious proposals now being considered in the United States are adopted. Even though the US seems to prefer a cap-and-trade system of emissions permits over a carbon tax, Snoddon and Wigle show that their proposal could coexist with such a system and, more importantly, could easily be converted into a cap-and-trade system should negotiations on a harmonized North American policy regime be successful.