

Cleantech

October 4, 2016

Pricing Carbon to Support the Clean Energy Transition

On Monday, October 3, Prime Minister Trudeau provided details of the previously-announced federal plan to price carbon across Canada. The federal plan, which is based on the principles accepted by the First Ministers in the March 2016 Vancouver Declaration, provides all Canadian provinces and territories with over a year to introduce their own carbon pricing models (either an explicit price or cap and trade) meeting the prescribed standards, failing which the federal government will begin to levy an explicit carbon price of its own on a broad set of emission sources at the specified floor price in 2018. Putting a steadily increasing price on greenhouse gas (GHG) emissions is widely viewed as an essential part of a cost-effective plan to address climate change, and is expected to help stimulate innovation, clean growth and Canada's transition to a low-carbon economy.

Notwithstanding the March 2016 Vancouver Declaration, reports in the media indicate that not all of the provinces and territories currently agree with the imposition by the federal government of a price on carbon. Complaints about the limited extent of the federal government's consultation are being voiced, and concessions are reportedly being sought as a condition for the support of some provinces and/or territories.

In the absence of unanimous support, the unilaterally announced federal plan is clearly designed to minimize potential objections through:

- revenue neutrality (to the federal government) - all of the revenues will be returned to the jurisdiction in which they were collected;

- a low initial floor price of \$10 per Tonne (approximately 2 cents per litre of gasoline) in 2018, increasing by \$10 per Tonne each year to 2022;
- flexibly accommodating existing provincial carbon pricing models (namely the explicit price models adopted by British Columbia and Alberta, and the cap and trade model adopted by Ontario and Quebec, provided that the provincial models continue to align with Canada's national target for the reduction of its GHG emissions); and
- providing the remaining provinces and territories with more than a year to adopt a carbon pricing model of their own.

Implications

The imposition of the proposed pan-Canadian minimum price on carbon is an important step by the federal government toward the achievement of Canada's international climate change commitments, but leaves much to be done. The pre-existing provincial carbon pricing models, together with the dim prospects for federal/provincial unanimity on carbon pricing, seems to have tied the federal government's hands and to have made both the unilateral federal announcement and the return of all carbon revenues to the provinces and territories, necessary elements of the federal model. As a result, further federal action on climate change will have to be regulatory in nature and/or be funded from revenues other than the price on carbon. As the recipients of the carbon revenues, the provinces and territories will have the financial resources, and responsibility, to continue to take on a central role in achieving Canada's climate change commitments. Under this decentralized model, it may also be more

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difficult for the federal government to implement carbon border adjustments (for example, as were contemplated by the ill-fated U.S. national (Waxman-Markey) cap and trade bill) which could become a more significant concern as the price on carbon continues to rise.

In any event, there is reason to hope that the price on carbon announced by the federal government will help to efficiently stimulate innovation, clean growth and the transition to a low-carbon economy by partially internalizing the environmental costs of polluting activities. A steadily increasing price on GHG emissions should assist businesses to plan more effectively and

enable the business and individual investments in clean technologies required for Canada to meet its international obligations and to compete in the rapidly growing global cleantech markets. The announced price on carbon will, however, need to be effectively supported by the complementary educational, regulatory, infrastructure and other economic actions, currently being developed by the federal / provincial working groups under the Vancouver Declaration, for Canada to meet its international obligations and successfully transition to a low-carbon economy.

For further information, please contact any member of our Cleantech Group.