

Need to Know: Federal Carbon Pricing

Introduction

The Federal Government has announced that, beginning in 2018, there will be a minimum price for carbon emissions in Canada of \$10/tonne. The price will rise by \$10/year to \$50/tonne by 2022. Provinces have the option of implementing and administering the program themselves. If provinces do not develop their own program, the Federal Government will administer one on their behalf. Last week, the Ministry of Environment released details on what exactly this federally-imposed plan will look like.

The Facts

- Mimicking Alberta's method of pricing carbon, one part of the plan places a carbon price on fossil fuels, operating as a tax on liquid fuels like gasoline and diesel.
- Another part of the plan is a cap and trade system that applies to large carbon emitters (50 kilotonnes of CO₂ per year or more), which permits the industry producer to have a baseline limit of pollution. If the baseline is exceeded, the producer will have to pay more for CO₂ emissions or purchase credits from those under the baseline limits.
- The carbon price is not necessarily a tax, as it intends to change behaviour for environmental benefit and is not intended to raise federal revenues. Any revenues raised due to this carbon pricing system in Saskatchewan would stay within the province, but would not necessarily go back to the Provincial Government. Revenue may go to the local individuals and businesses who absorbed the carbon price. If a province enacts their own carbon price plan, revenues can be spent however the province see fits.
- Even if Saskatchewan implements a carbon pricing system, the Federal Government will add 'additional tax' if the plan does not meet the minimum standards.

The Impact

With carbon priced at \$50/tonne by 2022, consumers can expect to pay an additional 11.6 cents a litre for gasoline (an extra \$5.82 for a 50-litre tank of gasoline). The cost of natural gas, diesel, and electricity generated from coal or natural gas will increase as well. The natural gas heating bill for an average detached home would increase by roughly \$264 based on anticipated 2022 carbon prices. Farmers will be exempt from paying the additional carbon price on certain fuel used in farming operations. A simple back of the envelope estimate suggests \$10/tonne carbon pricing would have cost Saskatchewan \$750M in 2015. This dollar figure is estimated to rise to \$3.75B at carbon pricing of \$50/tonne.

The Debate

The federal plan is based on the idea that consumers will adjust their energy consumption due to the increased cost of fossil fuels, therefore lowering their carbon emissions. With respect to large emitters, it is argued that a baseline limit of pollution will create incentive to develop technology for less pollution. If Saskatchewan implements its own carbon pricing system, there will be flexibility in how it is developed and whether a direct price on carbon pollution or a cap-and-trade system is adopted. Additionally, carbon pricing might be thought of as a way to account for the unappreciated environmental costs of commuters and producers who emit carbon emissions.

On the other hand, some have posited that there is a risk of stunting Saskatchewan's energy sector with the implementation of carbon pricing. Saskatchewan has the highest CO₂ emissions per capita in Canada at 66.2 t/person, and there is a worry that Saskatchewan residents will be hit particularly hard by carbon pricing. Issues of federalism are intertwined with the Federal Government's authority to implement a carbon pricing system on behalf of the province. The Federal Government has stated they have appropriate authority due to the main thrust of carbon pricing being environmental protection (which falls under federal jurisdiction). Premier Brad Wall has indicated that the timing is not right for Saskatchewan to implement a carbon pricing system, and has estimated the Federal carbon pricing plan will cost Saskatchewan \$2.5B once fully effected. Premier Wall has stated, "We estimate the carbon tax will cost the average family \$1,250".

¹ <https://www.saskatchewan.ca/government/news-and-media/2016/october/03/carbon-tax>