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Joint Canada–US Approach on Climate Policy Needed: C.D. Howe Institute

Toronto, Feb.3, 2009 – A joint Canada-US approach to reducing greenhouse gas (GHG) emissions is the best option for Canada, since it would minimize the negative impact on Canada’s competitiveness, says a study released today by the C.D. Howe Institute.

In *Pricing Greenhouse Gas Emissions: The Impact on Canada’s Competitiveness*, authors Chris Bataille, Benjamin Dachis and Nic Rivers note there is a growing consensus that if serious action is to be taken to reduce greenhouse gas emissions in Canada, a price must be applied to emissions through a cap-and-trade system or a carbon tax. The authors look at a number of scenarios of how Canada’s climate policy might coexist with the rest of the world, how certain sectors are likely to be affected by carbon pricing and what governments can do about it.

Overall, they find that competitiveness impacts associated with climate change policy in Canada are likely to be relatively small for most sectors of the economy, with the exception of the following sectors: oil and gas extraction and processing, pulp and paper, metal smelting, chemicals, cement and lime production.

One concern, they note, is that measures Canada might take to reduce GHG emissions may be partly offset by the relocation of Canadian industries to countries that lack tough climate change policies – an effect known as emissions “leakage.” Such leakage, they find, would be relatively small: for every 5 megatonnes of CO₂ that is reduced by Canadian industry, only 1 tonne would be leaked abroad. Any leakage would also be primarily to the United States, rather than to developing countries, meaning that a joint Canada-US approach would largely eliminate both the potential for leakage and overall competitiveness issues.

The authors also examine several mechanisms, such as border tax adjustments, that could be used to mitigate these leakage effects, and find that while such measures can be successful at reducing competitiveness impacts, such protection is likely to be costly to both the wider economy and the environment, and ill prepare Canada for a long-term future with significant carbon pricing. Policymakers must be cautious in considering these measures, say the authors.

The C.D. Howe Institute is Canada's leading independent, nonpartisan, nonprofit economic policy research institution. Its individual and corporate members are drawn from business, universities and the professions.

The study is available at www.cdhowe.org.

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Pricing Greenhouse Gas Emissions: The Impact on Canada's Competitiveness, C.D. Howe Institute Commentary No. 280, by Benjamin Dachis, Chris Bataille, and Nic Rivers (February 2009). 21 pp; \$12.00 (prepaid, plus postage & handling and GST – please contact the Institute for details). ISBN 0-88806-780-1.

Copies are available from: Renouf Publishing Company Limited, 5369 Canotek Road, Ottawa, Ontario K1J 9J3; or directly from the C.D. Howe Institute, 67 Yonge St., Suite 300, Toronto, Ontario M5E 1J8. The full text of this publication is also available from the Institute's website at www.cdhowe.org.