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Canada Can Forge Ahead with GHG Emissions Trading, Without Waiting for the US: C.D. Howe Institute

Toronto, August 26 – Canada can forge ahead with its own greenhouse gas (GHG) emissions trading system, while limiting the risks of getting too far out of step with the United States, according to a study released today by the C.D. Howe Institute. In *Better Together? The Implications of a Linking Canada – US Greenhouse Gas Policies*, economists Dave Sawyer and Carolyn Fischer suggest that a policy of “go it alone,” with prices on emissions that are similar to those of the US, based on the expectation that a US policy eventually will be in place, would be a low-risk strategy for Canada.

While Canada has chosen to harmonize its emissions targets with the United States, and indicated an interest in following the US lead on emissions trading, Canada has more to gain, or potentially to lose, under linking scenarios, say the authors. Canada’s abatement costs are likely to be higher than those in the US, owing to several factors: faster growing emissions in Canada; fewer low-cost opportunities to reduce emissions in the electricity sector; and the high costs of emissions reductions in the oil and gas sector. Importing permits from the US, they point out, would equalize relative emissions permit prices, and lower the economic costs of emissions reductions in Canada, but at the cost of large financial outflows to the US. From the US perspective, linking with Canada would have little effect on costs.

If Canada is indeed to seek more emissions reductions in the future, as Canada’s longer-term 2050 emissions reduction targets imply, innovation must be allowed to drive transformative technologies, argue Sawyer and Fischer. However, Canada-US emissions permit trade would lower Canadian permit prices, lessening the incentives to invest in technologies like carbon capture and storage in the oil and gas sector. An alternative policy would be to create a peg to the US emissions permit price, which would keep the revenues at home to be invested in technological innovation and other emissions-reducing activities.

While GHG emissions legislation is at present going nowhere in the US Congress, and the US has not expressed much interest in linking its policies with foreign emissions trading systems, to wait for the US to legislate emissions policies would mean delay for Canada, say the authors, without any guarantee that the eventual US approach would include linkages with Canada's system.

For the study, go to www.cdhowe.org

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Better Together? The Implications of Linking Canada – US Greenhouse Gas Policies, C.D. Howe Institute Commentary No. 307, by Dave Sawyer and Carolyn Fischer (August 2010), 26 pp; \$12.00 (prepaid, plus postage & handling and GST – please contact the institute for details). ISBN 978-0-88806-813-2.

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.