Intelligence MEMOS

From: Benjamin Dachis

To: Governments across Canada

Date: July 23, 2018

Re: **Ottawa's Clean Fuel Standards Still Too Murky**

Ottawa should clear up confusion about its plans for clean fuel standards. Policymakers must examine the inherent limitations and potential economic costs of a clean fuel standard system.

Clean fuel standards (CFS) are an evolution of government-imposed renewable fuel mandates that are common across Canada. Unlike current programs that promote, for example, the use of ethanol or biofuels, a clean fuel standard is a broader policy tool that tracks the overall lifecycle of emissions – from production site to refining and transportation to final combustion. Several problems are inherent in the implementation of a CFS. One is how to determine conclusively the total amount of emissions created during the production of the fuel. That can't be determined easily in a lab.

Following the lead of British Columbia and California, the federal government now aims to have its clean fuel standard in place by 2022, a delay from the original timeline that was just announced last week. The cost of emissions reductions from CFS programs in California and British Columbia is now many times that of emissions permit prices in the broader market. The cost of emissions reductions under British Columbia's CFS was $164 per tonne in 2017, compared with the $30-per-tonne carbon tax that has prevailed since 2013. Similarly, in California, after initially low prices for CFS permits, the cost of permits peaked at CAD $160 per tonne of emissions reductions, much higher than the average California economy-wide emissions cap-and-trade price of around CAD $18 per tonne.

A clean fuel standard could have a large economic cost relative to pure emissions pricing, especially on energy-intensive, trade-exposed sectors. The federal government has released neither a clear rationale for the proposal nor an economic costing of it.

A CFS is an imprecise tool to reduce emissions. Yes, it reduces the emissions produced for every litre of fuel used. But, what if people end up driving more? Whether there are any emissions reductions becomes ambiguous.

Ottawa has not made an explicit case for a CFS as opposed to other means of reducing emissions. There are potential market failures that emissions pricing does not address. For example, households might not be able to afford to buy an expensive vehicle with low emissions or high fuel economy, but continue to use their old gas-guzzler, making an emissions price a blunt way to change personal vehicle emissions. If tackling problems like these are the intent of the CFS, Ottawa should say so, and why.

Among the recommendations in my recent C.D. Howe Institute report:

- The federal government should complete and release its own estimates of the economic cost of a CFS. If the economic cost of the proposed CFS plan is higher than a price on emissions, the federal government should have specific cost/benefit reasons to justify a CFS in addition to a price on emissions.
- Ottawa should be mindful of policies that are effective when targeted at households, but burdensome for businesses, particularly emissions-intensive, trade-exposed businesses.

A CFS should only be considered should effective carbon pricing become politically unachievable.

Ottawa has rightly slowed its CFS plan. Now it needs to present the case and economic cost before it finalizes its plan.

Benjamin Dachis is Associate Director of Research at the C.D. Howe Institute.

To send a comment or leave feedback, click here.