

# Intelligence MEMOS



From: Tracy Snoddon  
To: Catherine McKenna, Minister of Environment and Climate Change  
Date: June 25, 2018  
Re: **HOW THE FEDERAL GOVERNMENT SHOULD PREPARE ITS CARBON TAX**

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The election of Doug Ford and his Ontario Conservatives brings, among other matters, renewed focus on the federal government's looming requirement that all provinces impose some version of a carbon price by January 1, 2019.

While some provinces already have policies that fully align with the benchmark requirements, others do not. There is also the risk that some provinces may abandon existing policies in the future. The latest evidence is Premier-elect Doug Ford's announcement last week that Ontario will scrap its cap and trade program and join Saskatchewan in battling against your climate-change legislation. Depending on the outcome of the next Alberta election, that province, too, may join the fight.

So, how does the federal government achieve its goals of a Canada-wide carbon price?

Success hinges on the implementation of the carbon pricing backstop, and federal control over the backstop revenues, in non-compliant provinces. Businesses, too, will want the certainty of knowing what kind of policy they'd face.

The backstop ensures the minimum carbon price applies to emissions across all of Canada, not just in provinces that have chosen to implement carbon pricing.

The introduction of the backstop at \$20 per tonne of carbon dioxide-equivalent emissions starting in 2019 will generate considerable revenues. If a province requests the federal backstop, the revenues should be returned to the provincial government.

But in the case of Saskatchewan and any other non-compliant province, you should collect the revenues and control how the funds are used in the province. Options could include federal rebate cheques to individuals or some form of targeted spending in the province.

Federal control of the backstop revenues is the biggest lever Ottawa has to (eventually) bring a non-compliant province like Saskatchewan on board. By failing to implement a compliant carbon price, Saskatchewan could lose control of more than \$500 million in backstop revenues in 2019. I conservatively calculate those backstop revenues assuming the \$20 per tonne carbon price applies to 70 percent of Saskatchewan's 2016 emissions that are not covered by the province's proposed output-based allocation system. This amount will grow over time as the carbon price rises. The province has already forfeited a \$62 million one-time payment by not signing on to the Pan-Canadian Framework; this amount pales in comparison to the revenues that it could have at its disposal should it eventually agree to adopt its own compliant policy.

Provinces are faltering in their commitment to put a price on emissions. The federal government needs to meet this challenge head on if your goals for carbon pricing now and into the future are to be met.

Reassert your commitment to proceeding with the backstop, where required. Lay out all the details about how the federal government will use the backstop revenues in non-compliant provinces. Doing so sends a clear signal about what's at stake if a province does not align with the benchmark or abandons existing carbon pricing policies in the future.

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