Conservation Council *of* New Brunswick
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## MEDIA BACKGROUNDER

# Carbon Pricing: Implications of federal proposal for New Brunswick

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The federal Government is negotiating with provinces and territories a package of actions designed to ensure Canada delivers on the commitments it made at the United Nations climate change negotiations held in Paris, France, in December 2015. The Paris Agreement enters into force November 4, 2016, or 30 days after more than 55 countries representing 55 per cent of global emissions ratified it. Canada is expected to ratify the Paris Agreement in October, 2016, binding the country to deliver on its promise to cut carbon pollution at least 30 per cent below 2005 levels by 2030. After months of discussions and resistance by some provinces, Prime Minister Trudeau announced the federal government's proposal for carbon pricing on October 3, 2016, one component of the Pan-Canadian climate plan.

Carbon pricing incorporates the cost of climate change impacts and risks to society (i.e., to human health and safety from coastal erosion, extreme rainfall, heatwaves, and insect infestations) into the price of products and processes responsible for human-caused climate change. The goal is to encourage consumers and businesses to choose less polluting options. An example would be to avoid paying to pollute by insulating a house or business so it uses less oil, gas or electricity, or by changing an industrial process to generate less pollution. Other examples would be to buy an energy-efficient vehicle, electric car or bus, or, to install solar panels on roofs to avoid carbon pollution.

Carbon pricing can be applied as a levy on carbon pollution generated, for example, whenever oil, coal or natural gas is burned. Or, carbon pricing can be applied as an industrial cap on carbon pollution. In this case, companies that have a cap on carbon pollution (usually large industrial emitters and fuel distributors generating more than 25,000 tonnes a year) can trade allowances if they lower emissions below their cap, and buy allowances if their emissions are above their cap.

Revenue raised from a carbon levy or from government auctions of cap and trade pollution allowances can be reinvested in the economy to help consumers and businesses choose less polluting options and/or through lower corporate and income taxes.

**The federal carbon pricing proposal includes the following components:**

1. Provinces will have until 2018 to establish their own carbon pricing regime. If a province fails to do so then the Government of Canada will impose a "backstop" that will include a price schedule starting at $10 per tonne in 2018 and rising $10 a year until the price equals $50 a tonne by 2022. Revenue raised by the federal Government (if a province fails to do so on its own) will be returned to the province so it is considered revenue neutral to the federal Government. How funds raised would be returned to provinces has not yet been established. The carbon pricing schedule will be reviewed in 2022 and every five years thereafter. Provinces will be required to provide "regular, transparent and verifiable reports on the outcomes and impacts of carbon pricing policies."[1]

2. A province without a carbon pricing regime today (New Brunswick, Nova Scotia, Prince Edward Island, Manitoba and Saskatchewan) can choose a carbon levy or cap and trade or a hybrid system no later than 2018.

3. Provinces that choose a carbon levy (as B.C has done) will have to match the federal carbon pricing schedule.

4. Provinces that choose cap and trade (as Ontario and Québec have done; Manitoba likely soon) will have to legislate a greenhouse gas reduction target that equal to or greater than the federal target of 30 per cent below 2005 levels by 2030. The cap on emissions must decline year over year to reach the legislated target. Provinces choosing the cap and trade option meet federal requirements through the cap/target they set, not through matching the price schedule as with the carbon levy. For example, allowances sold in Québec have prices about half the federal price schedule. Québec meets the federal requirements because it has a legislated cap equal to or exceeding the federal greenhouse gas emissions reduction target.

5. Provinces can also choose a hybrid system (as Alberta has done) that includes a carbon levy and a performance-based emissions system for industry that allows for trading within the

[1] http://news.gc.ca/web/article-en.do?nid=1132169, p. 2

province (if a company exceeds the industry emissions intensity benchmark then it will have excess credits it can sell; a company that fails to meet the industry benchmark would need to buy credits).

6. A province's carbon pricing regime must cover, at minimum, the same sources as in British Columbia. According to the Pembina Institute, "B.C.'s carbon tax applies to 70 per cent of total greenhouse gas emissions. Of the remaining 30 per cent, about 14 per cent are associated with emissions produced by agriculture and decaying garbage in landfills. Another 16 per cent are associated with industrial emissions that do not come from burning fossil fuels. These include emissions released intentionally or unintentionally during the production, processing, and transmission of fossil fuels in the oil and gas sector, such as leaks from natural-gas pipelines. Another example is the production of lime in making cement, which has carbon dioxide as a by-product".[2] Emissions from these sources can be regulated by other regulations. Cap and trade systems in Ontario and Québec cover about 85 per cent of their province's emissions.

[2] http://www.davidsuzuki.org/media/news/downloads/BC_Carbon_Tax_Reality_Check.pdf, p. 2

**What does all this mean for New Brunswick?**

New Brunswick has until 2018 to determine which carbon pricing approach it will include in its climate action plan. The province has more control over carbon pricing revenue if it establishes its own system rather than relying on the federal Government's backstop. The Premier has indicated that any carbon revenue raised in New Brunswick will be reinvested in the province to help industry, businesses and consumers make the transition to low-carbon operations and lifestyles.

The province also has a regional target that includes Atlantic provinces and New England states. Over the next two years, New Brunswick has an opportunity to explore its options, including joining Québec and Ontario's cap and trade system to tie into U.S. programs in California and potentially New England states or establishing a hybrid system. Both these cap and trade options could generate lower costs to comply under a legislated target than a carbon pricing levy.

The province can also pursue a carbon levy with all funds returned to the economy through investments, incentives or tax cuts. Regardless of approach, decades of economic analysis show that carbon pricing stimulates innovation and job creation and has little negative impact on the overall economy, although there are adjustments that need to be made within sectors of the economy. In addition, carbon pricing is only one component of an overall climate action plan that must also include legislation and regulation. The Conservation Council has developed a climate plan for New Brunswick that demonstrates what a comprehensive climate plan for the province should include (http://www.conservationcouncil.ca/our-programs/climate-and-energy/).

New Brunswick has time to plan for the transition to a low-carbon economy. The Select Committee on Climate Change releases its recommendations October 21, 2016. The Government has promised to enhance its climate action plan in light of these recommendations aligned with the Pan-Canadian climate action planning process. Climate change puts our communities and families at risk. We need to account for those social costs of carbon pollution so that we change our ways. In changing our ways, we have an opportunity to avoid paying higher costs to pollute. Let's work together to find a path forward that works for our children as well as our economy.

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