

Intelligence MEMOS



From: Christopher Sands
To: Catherine McKenna, Minister for the Environment and Climate Change
Date: August 9, 2018
Re: **MAKE CANADA THE NEXT CALIFORNIA ON AUTO EMISSIONS**

In the United States, the Donald Trump administration [has announced](#) that it will suspend and revise vehicle emissions and fuel economy standards adopted during the Obama administration. The 2010 Obama standards [required that motor vehicles](#) meet a new 54.5 miles-per-gallon standard by 2025.

The Trump administration is simultaneously working to rescind an exemption granted to the state of California that, [since 1970](#), has allowed California to seek federal waivers allowing the state to establish higher vehicle emissions standards than the rest of the country. Originally, this status was a response to smog problems in Los Angeles and other cities. No other states were allowed to deviate from the federal standards, but since more than 10 percent of all of US vehicle sales are in California, the state's emissions standards and mandated technologies were often adopted by the North American auto industry for all vehicles. And several states wrote into local law that California standards had to be met by vehicles sold and operated in their jurisdictions, verified by required vehicle emissions inspections.

The Obama standards were significant in another way. They were [simultaneously adopted by the Government of Canada](#) in one of the notable examples of US-Canada regulatory coordination. Indeed, the auto industry was an ideal candidate for a coordinated regulatory approach by federal authorities in Washington and Ottawa since most of the firms involved operate in both countries and work closely with regulators.

As the Trump administration proceeds, plans to change the Obama standards and remove California's special status on automotive emissions will almost certainly be [challenged in US courts](#). Change may come, but not immediately. This gives Canada the opportunity to consider how it should proceed on Canadian emissions regulations.

With the financial health of the Canadian segment of the North American automotive industry in mind, the Trudeau government might consider suspending the new Canadian emissions standards following the US lead. Compliance with two different standards could hurt some carmakers, and they might side with Washington against Ottawa if Canada did not adopt the new US approach. If that happened, automakers might then cite Canadian high standards and penalties to justify shifting future investment and production to the United States, or to Mexico.

There is, however, another option. If the Trump administration is successful in stripping California of its role as a regulatory pacesetter on automotive emissions standards, Canada could attempt to take California's place. Canada accounts for a smaller share of the vehicles sold in North America than California but it has the sovereign right to set automotive emissions standards – and that right is not subject to a Trump administration veto.

In practice, Canada could only be effective in establishing higher standards for the automotive sector if firms were willing to adopt Canadian standards for all vehicles produced in North America. Internationally, there are a number of [private, voluntary standards](#) to which companies adhere in order to show commitment to addressing public concerns, and thereby improve their brand image with customers.

Since Canada is a subset of the larger North American market, the Canadian government would garner more support from the auto industry if the financial penalties for missing the ambitious targets in the existing standards were reduced or eliminated. Instead of taking an enforcement and compliance approach, Canada could shift its standards from mandatory to aspirational, and offer certification by government inspectors that the standard has been met. The Canada Emissions Standard could join [Leadership in Energy and Environmental Design](#) (LEED) certification for buildings and the U.S. Environmental Protection Agency's [EnergyStar ratings](#) for appliances as a signal to consumers.

Firms whose shareholders and customers applaud high emissions standards, and firms that have already sunk millions of dollars in research and development to try to meet the Obama era emissions goals, could find vehicles advertised as meeting “Canada Emissions” appealing.

Many Canadians would as well.

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