

# Intelligence MEMOS



From: Charles DeLand  
To: Canadians Concerned about Climate Change  
Date: January 3, 2024  
Re: **PLAN B, PLEASE, FOR FEDERAL CARBON POLICY**

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Suggestions that Canada's rising emissions prove federal carbon policy is not working miss the mark. The country's energy efficiency has, in fact, improved considerably under the carbon tax, but rapid population growth means more emissions.

Now, unfortunately for carbon price supporters, Ottawa has directly contradicted the principle underlying the tax. In late October, it decided to selectively pause its application to heating oil, a fuel still used across much of the country but used primarily in homes in Quebec (465,000), Atlantic Canada (287,000) and Ontario (267,000), ostensibly on affordability grounds, but largely viewed as a political move. Quite logically, provincial leaders immediately asked for exemptions covering fuels used in their regions, such as natural gas.

By undercutting the principle of treating each unit of emissions equally, no matter the source, the federal government may have fatally wounded its own carbon tax legitimacy. Its proposed oil and gas sector [emissions cap](#) further damages the equality principle. It has also confirmed the worst fears of investors relying on long-term carbon price signals to invest in emissions-reducing technology such as carbon capture.

The federal government should reconsider its approach, and find the right tool for the right job while minimizing confusing and contradictory policies – especially in light of a [report](#) from the Office of the Auditor General of Canada indicating that Ottawa is not on track to meet its targets.

Fixing the quantity of emissions rather than price is an option. The Quebec system works that way by capping total emissions and then trading the right to emit in a market-based system.

There are other types of strategies to reduce emissions, most of which Canada uses already. A recent [working paper](#) by respected economists Olivier Blanchard, Christian Gollier and Nobel prize winner Jean Tirole outlines the portfolio of policies to consider. Carbon pricing remains a big one; others include research and development (R&D), standards, bans and targeted subsidies. But they have to be done thoughtfully and well.

First, Ottawa can support low-emission technology. The C.D. Howe Institute has [found](#) that research support is best directed to emerging technologies not yet cost-competitive, rather than crowding out commercially oriented research by private companies. Supporting Canadian companies to gain access to foreign markets is another way to help.

To avoid wasting taxpayer money, a government-funded R&D agency needs excellent governance: It should be independent and led by experienced science hands, subject grants to a rigorous peer-review process, select goals but not solutions in advance, publish results afterward and contain provisions to abandon failing projects.

“Command-and-control” regulations such as bans and standards can also work. Regulations need to be realistically achievable. They work better when emissions are hard to measure at the firm or consumer level, when standardization is important for efficiency and competition, or when it's hard for consumers to calculate the costs and benefits of taking action (such as installing a home heat pump in face of variable gas and electricity prices, and uncertain contractor quality). But they aren't always appropriate: Canada's zero-emission vehicle mandate is off-track, [especially for light trucks](#).

Cost per reduced tonne has to remain at the forefront of any action. A subsidy, say for an electric vehicle, can be used, but it's often a very expensive way to reduce emissions. It also needs to be paid for, and that means it's a tax. Subsidies tend to work best in situations where individual investors don't capture the full benefit of their investment but where the aggregate benefits are great (for example, a network of EV charging stations).

For all its policies, Ottawa needs to know what is working and what is not. A monitoring unit tracking outcomes and rapidly sharing outcomes would help.

The federal government has gravely damaged its credibility on the existing carbon tax. It's time for it to carefully re-evaluate its carbon pricing policy and the remaining patchwork of policies, eliminate those that aren't working and figure out what might work better.

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