

Going it Alone on Climate

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Abstract

A number of recent papers evaluate various climate policy alternatives for Canada using Computable General Equilibrium (CGE) analysis. All of these focus on various federal proposals. This paper considers the possibility that some individual provinces or a group of provinces might (like some US States) go it alone on climate policy. The most obvious candidate is Québec, which seems most interested in action on climate. We will investigate the issue of instrument choice and the risks of leakage (whereby emissions reductions in one province are partially offset by increases in other provinces).

The regional CGE model of Canada we use relates greenhouse gas emissions to intermediate and final use of fuels as well as fugitive emissions related to oil and gas extraction. The model includes interprovincial and international trade flows as well as endogenous labour supply decisions. International and interprovincial trade flows are likely to both affect and be affected by the policy chosen. “Double dividend” considerations, are likely to raise the cost of compliance, since both plans are likely to generate less revenue than the expenditures associated with the plan. Any shortfall is likely to be made up in income or sales taxes of some kind. We have detailed tax and expenditure data for federal and provincial taxes, allowing us to simulate alternative ways of financing a given plan, and measure the regional impacts.

References

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