

Alberta's New Climate Plan: Can Alberta Be a Model for Texas?

By: James Coleman

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On Monday, Premier Rachel Notley [announced](#) Alberta's new climate plan, which is supported by a detailed [report](#) from a panel of experts. The centerpiece of the plan is a \$30/tonne price on carbon emissions in Alberta that is implemented through a modified tax dubbed a "carbon competitiveness regulation." The plan also includes more targeted measures aimed at phasing out coal power, boosting renewable power, lowering methane emissions, and capping emissions from the oil sands.

The most important question about Alberta's regulation is [whether it will encourage other jurisdictions to follow suit](#). Alberta's carbon emissions are just under 1% of the global total so it cannot do much to slow climate change by itself. But if Alberta can make stringent carbon regulations work in an energy-producing economy, it could stand as an important example for other energy producing jurisdictions.

As a result, Alberta's plan may be the most important climate announcement of the year. To achieve the world's climate goals, major energy producers around the world will have to lower their carbon emissions. But Texas and North Dakota or, for that matter, Russia and Saudi Arabia, aren't looking to California or Europe for inspiration on climate policy. They will, however, be watching to see whether Alberta's plan works out.

Alberta's Announced Carbon Policy

Under the new plan, Alberta's carbon price will rise to \$20/tonne in 2017 and \$30/tonne in 2018 and it will apply to anyone that burns or sells fossil fuels. The carbon tax's design—known as the "carbon competitiveness regulation"—is more complex than its headline numbers suggest. Large industrial facilities, such as the oil sands, will receive credits from the government toward compliance and the companies that produce the least carbon-per-barrel will have more credits than they need to comply. These companies can then sell their excess credits to less-efficient companies who will snap up any credits sold at less than the headline carbon price. So even after 2018, companies may sometimes pay a bit less than \$30/tonne of emissions and they will receive a substantial subsidy for their production, which will limit the net impact of the policy on industry.

On the other hand, the baseline carbon price is intended to rise over time slightly faster than inflation "as long as similar prices exist in peer and competitor jurisdictions." About 90% of Alberta's exports go to the United States, where there is no carbon price. So this may mean that the price will stay at \$30/tonne until the U.S. takes similar action on climate.

Alberta's proposed climate plan has other elements but the government has not yet revealed exactly how they will work. First, the province will take steps beyond the carbon price to make sure that coal-power is phased out by 2030. Alberta is targeting coal because it emits more carbon and air pollution than Alberta's other sources of electricity. At the same time, Alberta will provide extra funding for renewable power through a "clean power call" that pays extra for sources like solar power and wind power.

Alberta also aims to cut methane emissions from the oil and gas sector 40% by 2030. The panel proposes to start cutting methane by providing offset credits to companies that find ways to reduce their emissions; these credits may be a cheaper way to comply with the carbon competitiveness regulation. After five years, the government would begin to mandate reductions to ensure that the oil and gas sector meets the 40% target by 2030.

Finally, Premier Notley also announced that carbon emissions from the oil sands would have a special 100 megatonne annual cap. (This policy is not contained in the panel's recommendations to the government.) Right now, the oil sands emits about 70 megatonnes of carbon per year so it might eventually bump up against this cap if production continues to expand without efficiency improvements. But given lower oil prices and [slower projected growth of the oil sands](#), emissions will probably not approach this cap for a decade, particularly because the cap includes exemptions for co-generation and crude processing. Ultimately, this supposed cap may be helpful rhetorically but it's hard to say whether future governments would stick by it if it ever threatened to have real economic consequences.

The Big Question: Will Alberta's Carbon Plan Encourage Action Elsewhere?

Unilateral climate regulations such as Alberta's plan are politically challenging because they impose costs without providing any immediately obvious benefit. Clean air and clean water rules impose costs but provide citizens with the benefit of clean air and clean water. Climate change, on the other hand, is caused by global emissions so Alberta's climate regulation will only provide tangible benefits if it encourages other provinces and countries to follow suit.

Premier Notley also implied that the new climate plan will have an indirect benefit by improving Alberta's reputation in the U.S, and thus reducing foreign resistance to pipelines carrying Canadian crude such as the Keystone XL pipeline. This is a long-shot. Opposition to the Keystone pipeline was never conditional on the stringency of Alberta's regulation. As I explain in this [presentation](#), most opposition to the Keystone pipeline came from groups that are opposed to all new fossil-fuel infrastructure. Many Canadians favor both stronger climate regulation and better access to markets for Canadian crude; it would be pleasant to think that accomplishing one goal would lead to the other, but there is little evidence for this comforting theory.

So the success of Alberta's carbon policy will be determined by whether it convinces other countries that its stringent carbon policy is workable in a major energy-producing economy. Like any carbon price, Alberta's will encourage everyone in the province to burn less fuel by raising the price of electricity, natural gas, and gasoline. It will raise the average household's cost of heat, power, and transport by [about \\$500](#) a year.

Despite its costs, economists say this kind of carbon tax is the cheapest way to reliably lower carbon emissions because all carbon reduction policies have costs. But if you were a political

leader in Texas or North Dakota or Russia would you follow suit? Would you be willing to impose these costs on your local economy to address a global problem like climate change?

There's reason for hope: after all, governments raise taxes on their own businesses all the time. Carbon taxes may not be any more politically dangerous than other broad-based taxes such as a sales tax. And a carbon tax probably does less harm to the economy than common taxes such as those on corporate income. So countries or provinces can actually help both the planet and their economy by adopting a carbon tax and using the money to lower distortionary taxes like the corporate income tax. When a carbon tax is only used to replace other taxes, that's called a "revenue-neutral" carbon tax, and it is what British Columbia has been using since 2008.

Alberta, however, chose not to take this route. Instead, Premier Notley said the government would "reinvest" much of the new revenue in green infrastructure, renewable energy, and efficiency programs. Alberta will rebate some of the costs of the program to low and middle-income consumers, but it is not yet clear how it will do this. So far, there is no indication that the government will use the revenue to reduce other taxes.

Oddly, during the announcement, Premier Notley claimed that the new carbon tax would be revenue-neutral, because all the revenue will be "recycled back into the Alberta economy"—apparently she meant that the government will spend all the revenue it takes in. But that's not what "revenue-neutral" means, and it is dangerous to call such a tax "revenue neutral." Conservatives [often point](#) to British Columbia's tax as an example of how climate regulation can be consistent with the small government principles that often drive policy in energy producing jurisdictions. These advocates of revenue neutral carbon taxes won't get very far if "revenue neutral" becomes a euphemism for higher taxes and higher spending.

Alberta's new climate policy will be one of the most carefully watched experiments in climate policy and it could change perceptions of what is possible in a major energy exporter. Much will depend on its success.

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