Presentation to: Committee on Environment and Sustainable Development
Canada House of Commons
Ottawa ON

Re: "*Industrial Carbon Pricing*"

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April 23, 2026

SPOKEN REMARKS (SEE ALSO ATTACHED REPORT)

I hold a Ph.D. in Economics from the University of British Columbia and since 1996 I have been a professor of environmental economics at the University of Guelph. I am also currently serving as a special advisor to the United States Department of Energy.

In the early 1990s I developed and published one of the first computable general equilibrium models of the Canadian economy[1] focused on modeling CO2 emissions and climate policy. Since then I have published over a hundred peer-reviewed academic papers and think tank reports[2] on all aspects of climate change, including the development of tools for the empirical analysis of climate policy. My textbook *Economic Analysis of Environmental Policy* was published in 2010 by the University of Toronto Press.

For today's hearing I am submitting a recent report coauthored with my colleagues at the Fraser Institute entitled *Estimated Impacts of a $170 Industrial Carbon Price in Alberta and Canada*. This paper uses a computable general equilibrium model of the Canadian economy which was previously used in the peer reviewed economics literature to analyse the impacts of the federal EV mandate.

[1] McKitrick, R. (1997). Double-Dividend Environmental Taxation and Canadian Carbon Emissions Control. Canadian Public Policy, 417-434.
[22] See list here.

Our analysis compares two scenarios between now and 2030. In the base case the consumer carbon tax is removed, the federal industrial carbon tax is held fixed at its current level and the Alberta TIER price is allowed to remain at its current low level relative to the federal charge. The policy experiment consists of raising the federal industrial carbon tax according to the announced schedule but adjusted for inflation, while forcing the Alberta emissions charge to converge to the federal level. In line with the federal Emissions Reduction Plan the threshold for chargeable emissions under the Output-Based Pricing System is lowered over time so in addition to the rate increasing the tax coverage rises as well. Also in line with the Emission Reduction Plan we assume 10 percent of the tax revenues support new spending and 90 percent are retained by the government.

The overall results are as follows. The economy still grows, but more slowly, so that by 2030 national Gross Domestic Product is 1.3 percent lower than it would otherwise be. For Alberta the gap is 2.0 percent. Real income per worked is 1.1 percent lower nationally than under the base case while for Alberta the gap is 1.6 percent. Much of the cost falls on capital rather than labour. Nationally, real after tax labour income drops by 0.6 percent relative to the base case, whereas real after tax capital income drops by 8 percent. The labour market contracts slightly, with a loss of about 50,000 jobs nationally, of which over 10,300 are lost in Alberta.

Our model projects that due to the Industrial Carbon Price greenhouse gas emissions will fall nationally by about 14 percent relative to the base case. The loss of real GDP works out to just over $300 per tonne of emission reductions. The finding that the total economic cost of emission reductions is more than twice the real rate of the tax itself is common in general equilibrium modeling and is consistent with the well-established economic theory of the excess burden of taxation.

The impacts of the tax are not spread equally across sectors but fall relatively heavily on energy-intensive industries, which comes as no surprise. Some of the hardest-hit sectors include oil sands, natural gas, electricity and other utilities, refining, manufacturing and transportation.

I will conclude with three observations.

- First, governments need to be honest with the public that meeting ambitious greenhouse gas targets is costly and involves a reduced standard of living. False promises that decarbonization will somehow make us better off only invites inevitable backlash when the costs become apparent.
- Second, carbon pricing is, in theory, the most efficient economic mechanism for reducing greenhouse gas emissions. But the theory only applies when it is the only

policy mechanism used. When emitting activity is also subject to burdensome command-and-control regulations, as is the case in Canada, the potential efficiency of carbon pricing is lost and emission reductions are achieved at unnecessarily high costs.

- Third, climate change is a global issue and it is important for Canada to coordinate our policies with what our major trading partners are doing. It has been common over the past 30 years for countries like Canada to incur the costs of relatively aggressive climate policies only to see the emitting activity relocate to other jurisdictions. The result is that Canada loses the jobs and investment while global emissions do not go down.