



In Search of Policy Coherence in Canadian Carbon Taxation

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Is this the carbon approach we want?

Canada is preparing to embark on a national carbon pricing program that has already provoked some serious regional divisions. Provinces are tinkering with the goalposts – or making plans to do away with them altogether (though Ottawa says they can't do that).

Industry is signalling furiously about competitiveness in the hope of seeing some acknowledgment by those politicians who believe they alone hold the moral passport to pursue planet-saving solutions.

A process that started with the seemingly harmonious Vancouver Agreement in March 2016 has now descended into acrimony.

- Saskatchewan - Saskatchewan Court of Appeal, federal jurisdiction
- New Brunswick – Shift money from the existing gas tax into a fund for climate projects
- Ontario and Alberta – Potential change of government

As Ottawa prepares to impose its backstop on provinces and territories that don't have their own plans, this includes reluctant ones or those who may soon be led by dissenting premiers eager to test climate policy in the courts. To imagine that this imposed solution, known as backstopping, will resolve the situation seems, at this point in time, seems like a farfetched outcome.

It is now abundantly clear under the Paris framework that national efforts are not enough to stop warming at the widely discussed goal of 2 degrees Celsius.

Nobody seriously expects the climate targets we're aiming for are anything more than notional. People are driving more SUVs and fewer cars.

Canada is tightening the screws on its domestic hydrocarbon industry to the point that it may be extinguished, while willy-nilly enabling foreign producers who completely lack social and environmental accountability to flow their crude oil into our market.

Big city mayors fly off to international conferences to tout the prospect of a fossil-free future, while at home any major attempt at electrification, such as the Site C dam, is greeted by howls of protest.

Is there a better way to go about this?

In search of a win-win for economy, environment

Competitiveness is a big source of the turbulence in this space, and for those who want a mental image look no further than the cross-border gasoline shopper, a familiar creature where

proximity to the US border coincides with a large spread in fuel prices – such as Metro Vancouver.

That's easy to visualize, but not so evident and much more consequential is the problem of carbon leakage in industry. Unless they are somehow tethered to their Canadian locations, energy-intensive, trade-exposed companies that can exit to lower cost jurisdictions will continue to do so, especially when other business conditions are favourable. Now scale that up to include companies that will do whatever they can to reduce their costs.

Although this situation is typically viewed as a self-contained problem, what nearly all policy makers continue to disregard is the broader context of the implementation. For those concerned both about the environment and the economy, what we are seeing is increasing turbulence on the general question of whether humans are still capable of steering and moderating the impacts of the resource-intensive civilization they have created.

The phrase “climate leadership” has been a familiar one in British Columbia for some time now. What it seems to mean is: who can impose the loftiest aspirational goals that everyone knows will be missed. This week in British Columbia, the environment minister won murmurs of approval when he dealt with the reality that current objectives can't be met by making them higher, but later. (Not everyone approved, by the way.)

Where there is any sort of progress, the response from some quarters is always that it's time to move the goalposts because that is the only way to maintain climate leadership.

The erroneous concept that we can reduce our consumption in developed nations and thus vastly mitigate our atmospheric and ecological footprint is a fanciful and poorly founded fallacy. A full-scale transfiguration of the current cultural and economic model in developed nations would in itself not be enough to reduce atmospheric and ecological impacts to pre- industrial levels.¹ Today, essentially all growth in emissions comes from countries that are more reluctant to spend their own resources addressing global problems—that is, emerging economies such as India and China.²

What we're seeing is the realization that aspiration is not the same thing as realism in describing broad societal consent about actual willingness to pay for energy shifts.

¹ Tony Morley, *An Abridged Essay on the Principles of Energy Supply Reform: Options for continued growth through secure and abundant energy supply*.

² David G. Victor and Bruce D. Jones, *UNDIPLOMATIC ACTION: A practical guide to the new politics and geopolitics of climate change*, February 2018.

https://www.brookings.edu/wp-content/uploads/2018/02/esci_201802_undiplomatic_action.pdf “The fact is, deep cuts in emissions of carbon dioxide (CO₂) and other pollutants, as required ultimately to stop planetary warming, requires transformation of energy systems that central architects and standard diplomatic procedures cannot orchestrate. For the foreseeable future, the role of formal global institutions will be limited to setting aspirational goals (most of which will be missed), and focusing attention while mobilizing political energy around the need for serious solutions.”

We are pursuing climate policies in Canada that treat supply and demand as the same thing. The most effective route to abolish the need for hydrocarbons is to abolish the demand, yet so much public policy right now is focused on limiting the production and transportation of fuels.

There is a refreshing viewpoint I've been hearing, and agree with, that what we need is a new political logic to explain how governments, civil society and industry can successfully grapple with the problem of climate change in an era when the underlying political forces that determine what is possible are "erratic, scattered, and in flux."³

Compounding the issue is Canada's particular challenge in attracting investment. We are a small trading economy short on investment capital that has prospered due to its reputation for stability and attractive business conditions. In 2018, due to ongoing regulatory uncertainty and political decisions on major projects, Canada's reputation is in serious jeopardy.

Here are some ideas on how Canada could break this deadlock with win-win solutions.

1. Protecting our economy

Have an honest discussion about what it means to be an energy and mineral exporting nation, and what is the appropriate approach.

- LNG issue exemplifies this. A commodity that is sought after abroad yet is opposed at home, the idea that exports will consume all of our "carbon budget" is frankly absurd yet we hear it all the time.
- First—rather than a constant focus on climate change as a truly global problem, we could highlight the reality that the vast portion of emissions growth comes from a handful of jurisdictions, India and China in particular.
- It is absurd that our climate policies are deliberately structured to make it next to impossible to actually export cleaner hydrocarbon fuels to those countries, the very fuels they are depending on to make a far more consequential consumer shift possible than can ever happen in Canada.
- While Canada dithers on heavy oil pipelines, Bombay is planning a \$45 billion refinery with Russian and Middle East interests. I've heard from India's High Commissioner how much India would like to get into the energy trade with its stable Commonwealth partner Canada, but right now that's not how the opportunity is shaping up.

Canadians are confused by the emphasis on the supply side when really it is demand that is the problem and where the action is going to be in future. When those who oppose energy exploration and production protest in the locations like Burnaby Mountain where such resources are most abundantly consumed, it's no wonder that their detractors poke fun at their plastic kayaks and jet-setting celebrity leaders. Focusing on the energy emissions of pipeline construction seems like a distraction. The Leap Manifesto has not provided the solution that some thought it might be. At FH Collins school on Monday, I shared the fact that as energy

³ Victor and Jones.

consumers we've gone to a 4,000 calorie per day per person pre-history to the current 200,000 calorie civilization. (Morley) The students had some impressive ideas about how to meet these energy needs in future, and there was some talk of energy efficiency, but the one thing that didn't come up at all was a radical downsizing of our energy use, an observation worth making since that is the most important driver of how we are able to live today.

Climate change and carbon policy remain abstruse concepts for the average person, and that will make it more challenging to implement durable solutions.

Applying one-size-fits-all solutions is a recurring problem northerners are all too familiar with.

Independent MP Hunter Tootoo recently drew attention to Nunavut fears that carbon pricing will add to what is already the highest cost of living in Canada, in a place that only accounts for 1/10th of 1% of Canada's total carbon emissions. In asking for exemptions, he was clearly implying that Ottawa still has work to do on this front.

For Yukon, it's hard to avoid the sense you are being herded into a national backstop solution that will require a whole bunch of localized tweaks and mitigations even before it has the chance to be tested in the field. As it stands, the proposed plan has not been able to quantify the emissions mitigation achieved in Yukon's mineral exploration industry. The same competitiveness concerns we see in the south can inflict great harm to the competitiveness of mineral exploration and development in the north.

A recent study by the mining industry found that capital costs for mines built in Canada's northern Territories were quantified to be double for gold mines, 2.5 times higher for base minerals, and operating costs which are 60% higher than our southern counterparts in the provinces.⁴ For the many small operations, there is no way to avoid the sudden ramp-up in costs that will come from increased tax on diesel alone. Carbon pricing in principle is meant to discourage unwanted activity and encourage that which is wanted, but with no realistic alternative the only signal being sent is: pack your bags.

Why not shift the focus to equally influential yet more relatable programs. For example, in the Arctic region, a major impact of soot emissions is the extra warming and melting of ice caused by soot deposits (which are dark in color) on ice (which is bright and otherwise reflects away much sunlight, rather than absorbing the solar heat). Connecting specific actions to a problem like this sounds like a thing we can do like we did with ozone and acid rain a generation ago.

That's something for further development, but in the meantime, short term attention to implementation issues will help to preserve the pervasive benefits of a viable Yukon mining industry.

⁴ *Levelling the Playing Field – Supporting Mineral Exploration and Mining in Remote and Northern Canada*. Mining Association of Canada, Prospectors and Developer's Association of Canada, Association of Consulting Engineering Companies Canada, NWT/Nunavut Chamber of Mines & the Yukon Chamber of Mines.

Unfortunately B.C. has now tossed out the principle of revenue neutrality that for a decade helped to depoliticize the carbon agenda; considering neutrality is a way to sell carbon pricing to industry, it is worth a look. Based on experience elsewhere, investing carbon tax revenues into specific related programs is a politically astute move, as opposed to general revenues.

2. Innovation

Abundant supply exists in Canada because we have minerals for the batteries and electronics needed for the green revolution. The mining industry has astutely identified its role as a supplier of these elements, and in the last year or so, I've seen a wholesale, and welcome, move in this direction when it comes to how the industry is talking about itself.

Most government people, especially those who look after the numbers, do understand the profound fiscal benefits of successful mining and oil and gas industries. However, it seems as if those driving the climate agenda have felt it necessary to construct an appealing post-resource narrative in which we can continue our lifestyles uninterrupted in a radically altered new economy such as is depicted in the Leap Manifesto.

Back home in Victoria, I've gotten used to the BC Green Party leader use the word innovation as if it was the ultimate settler of all arguments. Got a problem with environmental impacts? Innovation! How can we solve climate change? Innovation. How will we replace the foundational resources that drive the Canadian economy? More innovation. Yet, it turns out that, when pressed, this politician has no idea himself of what that even means.

Rather than obsess over vague, speculative technological breakthroughs that will somehow, magically materialize to solve all our problems, I've concluded that the richest innovation is actually already happening, and it's happening in our natural resource industries. Partly because of global competition, partly because of how we regulate, the most productive and most innovative part of the Canadian economy today is in resources.

The other thing that's happened is that very quietly, resource expertise and technology has become, all by itself, a significant export industry. Water filtering, digitization, seismic, GIS, UAVs, remote sensing – all of these and more have emerged from the mining and oil and gas sectors to make Canada uniquely positioned to help other countries improve their environmental performance.

Unfortunately, and I really don't understand why, it's rare to find politicians who want to embrace these positives.

3. First Nations

Another thing that is less talked about, yet equally real, is mining's potential to play a much bigger role in advancing the social transformation required for public acceptance of resource development. In Canada's case, what I have been hearing quietly for some time now from

indigenous leaders themselves is that there are still too many barriers in the way of First Nations that want to be part of this future.

Why not make action on climate change a positive national project that genuinely adds to our prosperity and solves our most shameful fact as a country, indigenous rural poverty?

Mining and energy leadership with strong indigenous participation is the missing piece on the path to authentic climate leadership. Looking at how stressful it has become to permit a new pipeline or hydro dam, it's impossible to imagine the future of these resources and the solutions that they enable, without indigenous leadership at the forefront.

The Vancouver Declaration on Clean Growth and Climate Change set us on a course in March 2016 to transition to a low carbon economy by adopting a broad range of domestic measures, including carbon pricing mechanisms, adapted to each province's and territory's specific circumstances, in particular the realities of Canada's Indigenous peoples and Arctic and sub-Arctic regions.

If we can accept that modifying the global atmosphere through application of policy is a realistic activity that deserves a historic shift in resources allocation, surely we should be able to deal with a problem that every community in the country is aware of.

Ray of hope: Sustainable Development Goals

There are some signs that smart people are figuring this out in lots of different ways across the country. The federal Liberals have shown a determination on this file that is to be respected, but the unresolved consequences they are creating are hardly side issues. Also stack on top of that a zeal for labelling just about every environmental process to be "broken" or in need of "modernization," and the cumulative effect is stunning. Yet nobody in government has been given the appointed task of overarching management of what is quickly turning into a death by a thousand cuts.

I've been critical of those on the left who continue to sell sweeping carbon-pricing models as solutions, with no thought to what really makes the economy tick. I think the right has also got work to do. Is anyone yet convinced that Doug Ford and Jason Kenney know what they'd build in the place of what they propose to tear down? If both sides want to appeal to middle-ground voters who care about the environment, significantly more effort has to be applied to their respective carbon agendas.

What we're in need of is a political class that is willing to lead from a realistic vision that recognizes Canada's unique status and strengths. Handing out blue ribbons for who can best implement policy solutions designed for Luxembourg and Liechtenstein is not going to get us very far down the road to success.

In the words of David G. Victor and Bruce D. Jones, from their recent Brookings paper “Undiplomatic Action: A practical guide to the new politics and geopolitics of climate change”: “Shifting the focus to niches, to innovation, to small groups that can drive action—all of this is part of creating the conditions under which it is realistic to shift policy, both national and global, through which deep transformation of energy systems will occur.”⁵

Here’s one idea on how such conditions could be created for Canada.

The UN Sustainable Development Goals, which in 2015 evolved to include all nations, not just developing ones, offer a starting point that deserves wider examination. Establishing a baseline with international performance goals in multiple categories is an approach based on a broadly accepted model. In this framework, Canada’s hard earned status at 17th place is one that much of the world can and should be able to look to as an example. Harming the ability of energy-intensive, trade exposed industries to get Canadian minerals and energy to the world will do nothing to elevate our standing. SDGs are the long-awaited vehicle for bringing coherence to this mission in the era of carbon pricing.

Yes, we can do better. Canada needs to be focused on the international challenges that are also opportunities. I’m hoping policy makers experience this revelation before the Canadian economy is impaired for the long term.

⁵ Victor and Jones.