

# Sharing the Load

## Addressing the Regional Economic Effects of Canadian Climate Policy

A Critique of the Pembina Institute and the David Suzuki Foundation Study of the Economic Implications of Reducing Greenhouse Gas Emissions in Canada

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## THE WEST IN CANADA PROJECT

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Canada is a wonderfully diverse country with its people spread across the second largest nation-state in the world. There are many things that tie us together as Canadians, but there is no doubt that each part of the country is unique and brings a different set of characteristics and perspectives to the national table. Understanding and integrating this diversity is a challenge as big as Canada itself.

Western Canada—British Columbia, Alberta, Saskatchewan, and Manitoba—forms one of many distinct regions within Canada. The West is no more homogenous than any other region or sub-region, but there is an abundance of features that tie the four western provinces together in special ways. Shedding light on this region, communicating its frustrations and aspirations to the national community, seeking ways to build on the common ground found in the West, weaving the region into the national whole, and highlighting public policy innovation in the West are the goals of the West in Canada Project. The project, like Canada West Foundation, is based on the idea that strong and prosperous regions make for a strong and prosperous Canada.

For more information about the West in Canada Project, please contact Robert Roach (roach@cwf.ca).

This report is part of Canada West Foundation's the West in Canada Project. The report was prepared by Canada West Foundation President and CEO Dr. Roger Gibbins. The author wishes to thank Robert Roach, James Brown, Jacques Marcil and Shawna Ritchie for their contributions to this report. The opinions expressed in this document are those of the author only and are not necessarily those of Canada West Foundation's Board of Directors, advisors or funders. Permission to use or reproduce this report is granted for personal or classroom use without fee and without formal request provided that it is properly cited. Copies may not be made or distributed for profit or commercial advantage. The report can be downloaded at no charge from Canada West Foundation's website ([www.cwf.ca](http://www.cwf.ca)).

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## EXECUTIVE SUMMARY

The recently released report by the Pembina Institute and the David Suzuki Foundation, *Climate Leadership, Economic Prosperity*, maintains that we can meet the Government of Canada's greenhouse gas reduction target, and indeed an even more ambitious target set by them, without major damage to the Canadian economy. Growth would slow, but it would not stop. However, their report also identifies, and likely understates, very substantial negative economic consequences for western Canada, and for Alberta and Saskatchewan in particular.

*Sharing the Load* puts these potential regional effects into focus. In doing so, Canada West Foundation suggests that, just as the global climate discussions taking place in Copenhagen recognize that differences in national circumstance must be acknowledged and accommodated, so too must Canadian climate policies acknowledge and accommodate regional differences in circumstance. If we fail to do so, climate policies will not be effective, their negative economic impact will be exacerbated unnecessarily, and the political union in Canada will be badly strained.

None of this challenges the support shown by Canadians across the country for effective climate change policy. Instead, our emphasis is on the need for climate policy that is effective and equitable. If we do not share the climate policy load, if we expect one region to carry too much of the burden, we will all fail. The attitude of "tough luck for Alberta and Saskatchewan" is damaging not just to the economies of these two provinces, but to the goal of reducing Canada's greenhouse gas emissions. Regional tension is a recipe for ineffective policy.

Just as the stakes are high if we fail to reduce emissions, so too are the economic consequences of bad public policy. According to the rather rosy predictions of the Pembina/Suzuki model, the Alberta economy will be at least \$22 billion smaller (in 2005 dollars) in 2020 than it would be otherwise. Keep in mind that it will be smaller than it would be in the years leading up to 2020 and in the years after, so the cumulative impact is much greater. And this is the best case scenario.

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Lying behind the slower growth is a migration of investment capital out of Alberta and a net tax transfer of over \$1,000 per Albertan year after year. Things do not look quite as bleak for Saskatchewan according to the Pembina/Suzuki model, but any hopes it has of using its fossil fuel resources and uranium deposits to keep its current prosperity going will have to be thrown by the wayside.

Simply put, we feel that we can do better than saying “tough luck” to Alberta and Saskatchewan; we can do more than dismiss the lost prosperity these provinces will experience if we follow the Pembina/Suzuki recommendations as collateral damage in the war on carbon.

Our recommendation is to see the Pembina/Suzuki study as a lesson of what not to do when designing a national climate strategy. What we need is a true national dialogue that yields a much less divisive regional outcome than what’s embedded in the Pembina/Suzuki approach.

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## 1. INTRODUCTION

As governments and environmental non-governmental organizations (ENGOs) from around the world gather in Copenhagen to design a new international policy framework to address climate change, they do so at a time of continuing economic uncertainty. The challenge is to find a climate policy framework that is realistic and effective without hindering economic recovery and long-term economic prosperity.

Finding the appropriate balance between environmental objectives and economic prosperity is a particularly acute challenge in Canada where the production, consumption and export of fossil fuel energy are central to our economy. In this context, the recently released report prepared by the Pembina Institute and the David Suzuki Foundation is particularly timely. The report, entitled *Climate Leadership, Economic Prosperity*,<sup>1</sup> is based on economic modeling conducted by M. K. Jaccard and Associates Inc. and purports to show that Canada can achieve its climate change policy objectives with only modest negative effects on the economy, and that such objectives do not preclude economic growth.

The Pembina/Suzuki report examines two greenhouse gas reduction targets: the Government of Canada target of a 20% reduction in emissions from 2006 levels by 2020, and an ENGO target of a 25% reduction from 1990 levels by 2020. It should be noted, however, that more demanding targets are being proposed; in an open letter to Prime Minister Harper, 500 Canadian scientists propose targets between 25 and 40% below 1990 levels. The more ambitious the target, the greater the negative regional effects. Unless otherwise stated, the economic implications cited in this critique are linked to the Government of Canada target on the grounds that this is the official national policy at this time. The Pembina/Suzuki report focuses on the economic costs associated with the ENGO target (what they call the 2°C target) that they feel should be adopted.

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1 *Climate Leadership, Economic Prosperity: Final Report on an Economic Study of Greenhouse Gas Targets and Policies for Canada* was prepared by the Pembina Institute and the David Suzuki Foundation ([www.davidsuzuki.org/files/reports/Climate\\_Leadership\\_Economic\\_Prospersity\\_-\\_Web.pdf](http://www.davidsuzuki.org/files/reports/Climate_Leadership_Economic_Prospersity_-_Web.pdf)). Funding for the study was provided by TD Economics. A summary prepared by TD Economics can be found at: [www.td.com/economics/special/ca1009\\_climate.pdf](http://www.td.com/economics/special/ca1009_climate.pdf) and the full technical report by M.K. Jaccard and Associates can be found at: <http://climate.pembina.org/pub/1910>

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The Pembina/Suzuki study gives valuable impetus for a badly needed national discussion on a Canadian energy strategy. In modeling the national economy, the report demonstrates just how important the *regional* economic effects of climate policy might be. As a consequence, the report is essential reading for understanding what *not* to do when it comes to climate policy. As such, the Pembina/Suzuki study can be read as a cautionary tale about how much damage we will inflict if regional economic effects are not proactively addressed.

Regional anxiety about national climate change policy is not confined to western Canada. As Ontario Premier Dalton McGuinty recently made clear: “When we have [a national] plan in place, it had better not discriminate against Ontarians who have in fact worked long and hard to reduce our emissions.”<sup>2</sup>

The objectives of this brief critique of the Pembina/Suzuki study are to highlight the regional economic implications of the greenhouse gas (GHG) emission policies supported by the study, to explain how they are more problematic than the report suggests, and to encourage more debate about these critical issues. The overall message of *Climate Leadership, Economic Prosperity* is that policies to address GHG emission reductions—including those that go well beyond the current Government of Canada target—will have a negligible impact on the national economy, and that the primary impact will be a modest reduction in economic growth. According to the Pembina Institute news release, “Canada can meet global warming reduction targets while growing jobs and economy.”<sup>3</sup> However, TD Economics arrives at a quite different conclusion, noting that “the policies to reduce GHG emissions are, in effect, a massive fiscal transfer that leads to a major industrial realignment.”<sup>4</sup> Our own analysis also concludes that the potential impact of climate policies on the regional and national economies are far from trivial, and thus deserve close and immediate attention.

We expect that some readers will criticize our focus on the regional effects of climate policy, arguing that we are fiddling while Rome burns, or at least warms considerably. If you believe, as Al Gore said recently in

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2 *Toronto Star*, November 24, 2009: [www.thestar.com/news/ontario/article/730233--ontario-must-get-to-keep-emissions-credits-mcguinty](http://www.thestar.com/news/ontario/article/730233--ontario-must-get-to-keep-emissions-credits-mcguinty)

3 [www.pembina.org/media-release/1907](http://www.pembina.org/media-release/1907)

4 Don Drummond and Craig Alexander. 2009. “Answers to some key questions about the costs of combating climate change: A summary of the Pembina/David Suzuki Foundation paper,” *TD Economics Special Report*, October 29, 2009. Page 3-4.

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Toronto, that the future of human civilization is at stake, then it seems small, petty and shortsighted to be concerned about regional economic effects. However, climate policies that create regional tension and, thereby, undermine the legitimacy of the national government *will not be effective*. Moreover, in a federal state where many of the climate policy levers rest in the hands of provincial governments, the regional dimensions of climate policy cannot be avoided. Ignoring the need to address regional effects in the way that the Pembina/Suzuki study does undermines the very goal of reducing GHG emissions.

An important challenge going forward in the badly needed, but still only embryonic, national energy discussion is to ensure that national policies designed to meet GHG emission reduction targets do not unfairly disadvantage some parts of the country. In other words, how do we share the load? How do we address the potentially negative *regional* effects of climate policy? Canadians believe in and support a reasonable balance between environmental protection and economic prosperity. The challenge is to find that balance without inflicting disproportionate damage on regional economies. It is here that the Pembina/Suzuki study nicely illustrates the risks we face.

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## 2. CONTEXT

Countries around the world are embarked upon a public policy trajectory to reduce GHG emissions, and Canada and its component parts must participate. International agreements will have an impact on Canada, although the most direct impact will come from US policy. At the same time, regional differences in the production, consumption and export of energy are embedded in our vast geography, constitutional law and political traditions; they must be addressed in the pursuit of environmental goals. Just as the global climate discussions taking place in Copenhagen acknowledge that differences in *national circumstances* must be recognized and accommodated, so too must Canadian climate policies recognize and accommodate differences in *regional circumstances*.

Within our unique set of circumstances, Canadians take climate change seriously and generally support public policies designed to protect the environment, and reduce our carbon footprint. However, there is no compelling evidence that we are prepared to unnecessarily sacrifice economic prosperity in pursuit of climate goals. Canadians are repeatedly told about the economic potential of the “green economy,” of the green jobs that will offset job losses in the fossil fuel economy, and the competitive advantages that will accrue to the provinces and countries that lead the transition into the new energy economy. We are also told, and here the Pembina/Suzuki study is a prime example, that GHG reduction targets can be met with a modest impact on the economy.



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### OBSERVATIONS ON THE ASSUMPTIONS BUILT INTO THE PEMBINA/SUZUKI ECONOMIC MODEL

Our goal is to highlight the regional economic effects embedded in the Pembina/Suzuki study, and not to critique the model itself. However, there are a number of elements that we noted about the model's assumptions:

- ▶ In order to reduce complexity, the model assumes that the added costs imposed on our domestic industry will not result in manufacturing jobs or investments leaving Canada ("carbon leakage").
- ▶ The model's reference price for crude oil is fixed at \$46.84 throughout the next 10 years. If this assumption turns out to be correct, it is highly unlikely that there will be any new oil sands developments in Alberta because the price of oil will simply be too low.
- ▶ The model assumes that the amount of capital investment in the Canadian economy will remain fixed over the next 10 years at the business as usual level. This, in turn, is based on the assumption that the capital that would have been invested by the western Canadian energy sector will instead be invested by it in manufacturing opportunities that have a similar impact on productivity (international investment is not factored into the model). This assumption bears little relationship to the reality of investment decisions and the international nature of the energy sector.
- ▶ The model forecasts dramatic changes over just 10 years in the physical output from different sectors: crude petroleum production is expected to fall between 11 and 24%, natural gas production by between 19 and 29%, coal production by between 18 and 23%. On the other hand, ethanol production is forecast to increase by over 5,000% in just 10 years and biodiesel production is forecast to increase by approximately 190,000%.
- ▶ The model assumes that the oil and gas sector is not trade exposed while the manufacturing, services and renewable electricity sectors are. This assumption is optimistic given that the price of oil is established through supply and demand on a global level and thus the energy sector can not "pass through costs" to the consumer.
- ▶ The model assumes no changes in production technologies over the next 10 years, an assumption that is not in line with the experience of the energy sector.

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### 3. ECONOMIC EFFECTS IDENTIFIED IN THE PEMBINA/SUZUKI STUDY

The Pembina/Suzuki study is generally upbeat about the economic consequences of climate policies; it comes very close to echoing President Roosevelt in suggesting that Canadians have “nothing to fear but fear itself.” However, a generally positive national picture looks less rosy when we look at very different regional effects. Here we have to look at the negative economic impact of the proposed policy framework, and then at the regional distribution of the revenue generated by that policy framework.

We also need to keep in mind that the economic modeling used in Pembina/Suzuki study is based in large part on assumptions, and that different assumptions yield different outcomes. As the TD Economics summary states, “No doubt alternative assumptions and models could produce different results that might also be realistic.”<sup>5</sup> With that said, the majority of the report’s assumptions err on the rosy side of the spectrum. This means that the Pembina/Suzuki study forecasts are a conservative assessment of the economic damage that will result from pursuing GHG reductions; they do not cover the full range of potential pain that could result from the policies they examine.

#### *Negative regional effects*

The model used in the Pembina/Suzuki study highlights a number of forecasts that are deeply problematic for western Canada, albeit more problematic for Alberta and Saskatchewan than for Manitoba or BC. The impact varies depending on whether we opt for the Government of Canada reduction targets or the more stringent targets advocated by ENGOs.<sup>6</sup> For the purposes of this critique, we have chosen to cite the data

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5 *Ibid.* Page 1.

6 The current Government of Canada target is 20% below 2006 GHG emission level by 2020; the target advocated by many ENGOs is 25% below the 1990 level by 2020.

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Figure 1 **Pre-tax Annual Salaries 2020**  
(\$2005)

	BC	AB	SK	MB	ON	PQ	Atlantic and Rest of Canada
Business as Usual	53,746	65,890	48,612	49,949	57,453	51,175	55,908
ENGO Target	52,204	57,959	45,640	50,281	56,509	50,202	53,319
Government of Canada Target	53,541	61,821	47,801	50,690	57,321	51,029	54,940

Note: The ENGO target and the Government of Canada targets refer to the scenario where OECD countries act together.

Source: M.K. Jaccard and Associates Inc. 2009. *Final Report: Exploration of two Canadian greenhouse gas emissions targets: 25% below 1990 and 20% below 2006 levels by 2020*. Table 62.

related to the Government of Canada target.<sup>7</sup> The economic consequences are, of course, worse when the ENGO target is in play. Negative economic consequences forecast by the Pembina/Suzuki model include:

- ▶ Pre-tax annual salaries are expected to fall 6.2% or \$4,069 in Alberta, and 1.7% or \$811 in Saskatchewan; in Ontario, the fall is predicted to be 0.2% or \$132 (see Figure 1).<sup>8</sup>
- ▶ Canadian welfare (a composite measure of goods consumption and leisure) is expected to fall by 4.2% in Alberta, but only by 0.9% in Ontario (see Figure 2).<sup>9</sup>
- ▶ Workers in the fossil fuel sectors will be hit hard. The TD Economics summary puts it this way: “while aggregate employment is not dampened, and may actually increase slightly according to the modeling, the industrial structural change would lead to a considerable disruption to labour markets in the negatively affected sectors.”<sup>10</sup>

7 We cite the data for Government of Canada target–OECD countries act together scenario from the technical report. The data in *Climate Leadership, Economic Prosperity* most often refers to the ENGO target–Canada goes further scenario.

8 M.K. Jaccard and Associates Inc. 2009. *Final Report: Exploration of two Canadian greenhouse gas emissions targets: 25% below 1990 and 20% below 2006 levels by 2020*. Table 62.

9 *Ibid.* Table 55.

10 Don Drummond and Craig Alexander. *Ibid.* Page 3-4.

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Figure 2 **Overall Change in Welfare From Consumption and Leisure Relative to “Business As Usual,” 2020 (%)**

	BC	AB	SK	MB	ON	PQ	Atlantic and Rest of Canada	Average Canada
ENGO Target	-2.1	-7.8	-5.2	-0.1	-1.7	-1.4	-1.9	-2.4
Government of Canada Target	-0.9	-4.2	-2.6	0.3	-0.9	-0.7	-0.6	-1.2

Note: The ENGO target and the Government of Canada targets refer to the scenario where OECD countries act together.  
 Source: M.K. Jaccard and Associates Inc. 2009. Final Report: Exploration of two Canadian greenhouse gas emissions targets: 25% below 1990 and 20% below 2006 levels by 2020. Table 55.

- ▶ This model assumes there will be no net change in the national level of capital investment in 2020. However, investment will be significantly lower in Alberta (\$11.6 billion less than under a business as usual scenario) but higher everywhere else except Saskatchewan (see Figure 3).<sup>11</sup> Alberta is the clear loser in capital investment: “The impacts of a carbon charge on GDP in Ontario, Quebec and the Atlantic provinces are compensated by an influx of capital that would otherwise have been invested in the fossil fuel industry in the western provinces, especially Alberta.”<sup>12</sup>

Figure 3 **Capital Investment 2020 (\$2005 billions)**

	BC	AB	SK	MB	ON	PQ	Atlantic and Rest of Canada	Canada
Business as Usual	63.4	113.4	19.7	15.8	175.2	88.9	33.8	510.1
ENGO Target	63.3	98.9	18.9	17.2	184.2	92.6	35.1	510.1
Government of Canada Target	63.9	101.8	19.4	16.6	182.0	91.4	35.0	510.1

Note: The ENGO target and the Government of Canada targets refer to the scenario where OECD countries act together.  
 Source: M.K. Jaccard and Associates Inc. 2009. Final Report: Exploration of two Canadian greenhouse gas emissions targets: 25% below 1990 and 20% below 2006 levels by 2020. Table 65.

11 M.K. Jaccard and Associates Inc. *Ibid.* Table 65.

12 *Ibid.* Page 12.

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Figure 4

**Absolute GDP at Basic Prices 2020**  
(\$2005 billions)

	BC	AB	SK	MB	ON	PQ	Atlantic and Rest of Canada	Canada
Business as Usual	223.30	295.60	53.20	53.50	691.30	331.00	110.70	1,758.60
ENGO Target	213.81	260.37	50.68	54.97	691.27	326.60	107.89	1,705.60
Government of Canada Target	218.28	273.94	52.59	54.52	695.22	328.55	110.11	1,733.21

Note: The ENGO target and the Government of Canada targets refer to the scenario where OECD countries act together.  
Source: M.K. Jaccard and Associates Inc. 2009. Final Report: Exploration of two Canadian greenhouse gas emissions targets: 25% below 1990 and 20% below 2006 levels by 2020. Table 67.

- ▶ Alberta’s GDP in 2020 will be about \$274 billion (\$2005) compared to \$296 billion if no action is taken—a loss of \$22 billion in that year alone (see Figure 4). This is what a 7% lower level of GDP means in dollars. For Canada as a whole, the one year loss in 2020 is \$25 billion (or 1.4%). BC and Saskatchewan will also have lower output, while Manitoba’s GDP is forecast to increase. The loss in Ontario is zero—GDP in the province will be 0.6% more than the business as usual case.<sup>13</sup>
- ▶ The TD Economics summary points out that the loss in GDP “is equivalent to a significant recession.... Unlike recessions, however, the lost economic output would not be recovered by a subsequent economic rebound.”<sup>14</sup> The impact is therefore permanent and geographically concentrated: according to the Pembina Institute and David Suzuki Foundation, the “urgent need to address the enormous GHG emissions from the coal-fired electricity and petroleum sectors in Alberta and Saskatchewan accounts for the reductions in the projected rates of growth in these provinces.”<sup>15</sup> In other words, we are looking at a permanent regional restructuring of the national economy, one engineered by climate policies.

13 Ibid. Table 67.

14 Don Drummond and Craig Alexander. Ibid. Page 4.

15 Pembina Institute and David Suzuki Foundation. 2009. *Climate Leadership, Economic Prosperity*. Page 4.

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- ▶ The cost assumptions in the model permit some delayed decommissioning of existing nuclear capacity but no new generating capacity, an outcome that does not augur well for the uranium industry in Saskatchewan.<sup>16</sup>

In general, our conclusion is that the Pembina/Suzuki study—whether we focus on the current Government of Canada target or the more aggressive ENGO target—greatly underestimates the harm that could be done to the western Canadian economy. It assumes a substantial reduction in fossil fuel output, and therefore a corresponding loss in employment and investment in this sector. The policies outlined in the Pembina/Suzuki study will increase the costs and risks associated with Canada’s fossil fuel sectors and nothing scares away investment like costs and risk. The report argues that, rather than shifting to the greener production and consumption of fossil fuels, western Canada should increase its production and consumption of renewable fuels (but not nuclear-generated electricity which the Pembina/Suzuki study burdens with prohibitive generating costs).<sup>17</sup>

While the economic impacts of GHG emission targets will play out very unevenly across the highly regionalized Canadian economy—a prospect that raises serious equity issues—the discussion in the Pembina/Suzuki study fails to address the potential impact of a damaged regional economy on the *national* economy. What are the Canada-wide effects of economic shrinkage in the West? What happens to firms in Ontario and Quebec that provide equipment and services for the conventional energy industry? What happens to the 25% of Canadian exports that currently come from energy?

In recent years, western Canada has been the “engine of the Canadian economy.” The fossil fuel sector is a major driver for the Canadian economy, now and in the foreseeable future. It creates opportunities for Canada and Canadians as a source of employment, investment, exports and innovation. What, then, happens to the Canadian economy if the fossil fuel sector and most of the western Canadian economy are brought to their knees?

### *Regional redistribution of wealth*

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<sup>16</sup> M.K. Jaccard and Associates Inc. *Ibid.* Page 4.

<sup>17</sup> *Ibid.*

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Figure 5 **Regional Sources of Carbon Revenue 2020**

	BC	AB	SK	MB	ON	PQ	Atlantic and Rest of Canada
ENGO Target (\$2005 billions)	7.28	23.71	3.84	1.76	20.72	9.90	4.74
\$ Per capita (2009 population)	1,634	6,429	3,728	1,440	1,585	1,265	1,948
Government of Canada Target (\$2005 billions)	4.27	17.18	2.49	1.02	12.06	5.74	2.79
\$ Per capita (2009 population)	958	4,659	2,417	835	920	733	1,146

Note: The ENGO target and the Government of Canada targets refer to the scenario where OECD countries act together.

Source: M.K. Jaccard and Associates Inc. 2009. Final Report: Exploration of two Canadian greenhouse gas emissions targets: 25% below 1990 and 20% below 2006 levels by 2020. Table 57 and CWF calculations.

The economic costs are only part of the picture, for the proposed carbon reduction strategies will also generate a great deal of revenue through carbon taxes and/or a cap-and-trade system. We therefore have to consider both where the revenues will come from and how they will be spent. Are we looking at a neutral outcome, with some regions paying a greater cost but also reaping more of the revenue benefits, or are we looking at a regional redistribution of wealth?

The Pembina/Suzuki study predicts that \$17.2 billion in revenue in 2020 will come from Alberta, \$12.1 billion from Ontario and \$5.7 billion from Quebec.<sup>18</sup> (BC will contribute \$4.3 billion, Saskatchewan \$2.5 billion, and Manitoba \$1.0 billion.) Based on 2009 populations, this would amount to a per capita contribution of \$733 from Quebec and \$920 from Ontario, but \$4,659 from Alberta (see Figure 5). Thus, on the revenue side, we have the foundation for a massive regional redistribution of wealth.

On the expenditure side, the model forecasts that Alberta will get back \$12.3 billion of the carbon revenue (\$3,341 per capita) in 2020. This is a difference of about \$5 billion or a net cost of \$1,318 per Albertan in 2020. The per capita net loss for Saskatchewan is \$1,174 and \$432 per person for Ontario. Quebec gains \$24 and BC gains \$445 (see Figure 6).<sup>19</sup>

<sup>18</sup> *Ibid.* Table 57.

<sup>19</sup> *Ibid.* Table 59 and Canada West Foundation calculations.

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Figure 6 **Regional Destination of Carbon Revenue 2020**

	BC	AB	SK	MB	ON	PQ	Atlantic and Rest of Canada
ENGO Target (\$2005 billions)	9.19	19.30	2.50	0.91	14.91	9.76	4.29
\$ Per capita (2009 population)	2,063	5,234	2,427	745	1,141	1,247	1,763
Government of Canada Target (\$2005 billions)	6.25	12.32	1.28	0.50	6.38	5.93	2.58
\$ Per capita (2009 population)	1,403	3,341	1,243	409	488	757	1,060

Note: The ENGO target and the Government of Canada targets refer to the scenario where OECD countries act together.

Source: M.K. Jaccard and Associates Inc. 2009. Final Report: Exploration of two Canadian greenhouse gas emissions targets: 25% below 1990 and 20% below 2006 levels by 2020. Table 59 and CWF calculations.

To put these redistributive flows into context, the *total* federal equalization payment to have-not provinces in 2009-10 was just over \$14 billion. The revenue shifting proposed by the Pembina/Suzuki study dwarfs Equalization and is likely to have all sorts of unintended consequences that could generate tension in the federation.

Some of the ways that the Pembina/Suzuki study proposes that the revenue be used include:

- ▶ Over a third of the revenue raised by a carbon tax or cap-and-trade system (36% – see Figure 7)<sup>20</sup> will be returned to Canadians through reduced personal income taxes.<sup>21</sup> In essence, hit one region hard and then distribute the bounty.
- ▶ Some of the revenue (10%) will be used to compensate Canadians for the carbon charges stemming from increased costs for home heating and electricity (see Figure 7). In other words, the revenue extracted disproportionately from Alberta and Saskatchewan will be used to ensure that Canadians in all regions do not face higher home heating

<sup>20</sup> *Ibid.* Table 58.

<sup>21</sup> Jaccard and Associates point out that other means of recycling carbon revenue are possible, but they were instructed by the Pembina Institute and David Suzuki Foundation to consider only personal income. From our perspective, this was an unfortunate instruction. *Ibid.* Page 3.



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Figure 7

**Uses of Carbon Revenue 2020**  
(\$2005 billions)

	ENGO Target	Government of Canada Target
Carbon Revenue	71.95	40.61
Buy International Permits	10.01	5.43
Buy Domestic Agricultural Offsets	1.02	0.36
Subsidies to Maintain 2008 Metal Smelting Output	0.00	0.00
Electricity Grid Improvements and Transit Subsidies	9.05	9.05
Household Compensation for Carbon Charges	7.16	4.06
Reduce Personal Income Taxes	31.88	14.53
Reduce Corporate Taxes	8.21	5.08
Other	4.62	2.10

Note: The ENGO target and the Government of Canada targets refer to the scenario where OECD countries act together.

Source: M.K. Jaccard and Associates Inc. 2009. Final Report: Exploration of two Canadian greenhouse gas emissions targets: 25% below 1990 and 20% below 2006 levels by 2020. Table 58.

and electricity costs. This makes no sense with respect to energy conservation, but it does assure Canadians that, as far as home heating and electricity goes, the reduction targets are cost-free.

- ▶ \$5.4 billion will be used to buy international permits—a cost borne disproportionately by Alberta and Saskatchewan.

It is important to note that the regulated cost of carbon capture and sequestration (this applies under the ENGO target) will not be covered by the carbon tax revenue and that Alberta and Saskatchewan will bear virtually the entire bill for this new infrastructure. Jaccard and Associates point out that the goal of this policy “is to limit the carbon price level for the rest of the economy.”<sup>22</sup>

When we look at the combination of revenue raising and revenue distribution, the Pembina/Suzuki approach is to raise revenue disproportionately from Alberta and Saskatchewan and then to use the revenue for tax reductions and spending across the country, thereby focusing the pain as much as possible on Alberta and Saskatchewan. The message is frustratingly clear: for most Canadians, emission reduction strategies will result in no immediate cost and very real gains in terms

<sup>22</sup> *Ibid.* Page 3.

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of tax reductions, with the bill being picked up largely by the resource economies in western Canada.

What we don't see is any plan to use revenues for re-investment in the energy sector. Surely one could argue that if Alberta and Saskatchewan are so much of the problem, then they should also be a large part of the solution, that it would make more sense to invest in energy research relating to hydrocarbon production and consumption than to provide rebates for home heating costs.

Reading between the lines of the Pembina/Suzuki report, it is clear that these organizations feel that Alberta and Saskatchewan have made their bed by developing large fossil fuel industries and relying on coal-fired electricity generation. Tough luck is the message we are hearing, and this is not only unfair but counter productive in terms of implementing effective climate change policy in Canada.

While there is no doubt that Alberta and Saskatchewan are Canada's largest per capita GHG emitters, it does not follow that they must suffer the most to meet Canada's international commitments. Just as it would not be fair to shut down the auto sector in Ontario because it builds cars that emit GHGs, it is not fair to offload most of the cost of addressing climate change on Alberta and Saskatchewan's fossil fuel sectors who are meeting the fossil fuel consumption demands of non-residents.

It is also important to note that behind the convenient façade of "Big Oil" are real people who will be affected by these policies. People will lose their jobs, see the value of their homes go down and be forced to uproot their lives and move. This does not deny the potential for human-induced climate change to also rack up costs, but it points to the value of doing more than sticking our heads in the sand with regard to the human impact of climate policy.

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#### 4. CONCLUSION

*“The urgent need to address the enormous GHG emissions from the coal-fired electricity and petroleum sectors in Alberta and Saskatchewan accounts for reductions in the projected rates of growth in these provinces.”<sup>23</sup>*

In *Climate Leadership, Economic Prosperity*, the Pembina Institute and David Suzuki Foundation argue that the Government of Canada “needs to implement far stronger policies than it has proposed to date to meet its current GHG target”<sup>24</sup> and that meeting the more aggressive ENGO target requires more effort on top of that. The report also argues that achieving these targets is not incompatible with continued economic prosperity and economic growth. This conclusion, however, makes sense only if Canadians are prepared to accept a great deal of regional inequity, only if a very serious blow to the western Canadian economy will have little national impact, and only if the rather rosy economic assumptions built into the model are accurate.

The Pembina/Suzuki study claims that Canada can meet GHG emission reduction target—be they the current Government of Canada target or the more aggressive ENGO target—with only a modest negative effect on economic prosperity. Yes, growth will slow, but it will continue is the message: “Canada can meet the 2°C emissions target in 2020 [i.e., the ENGO target] and still have a strong growing economy, a quality of life higher than Canadians enjoy today, and continued steady job creation across the country.”<sup>25</sup> However, the report also forecasts, and in all likelihood underestimates, severe negative effects on the western Canadian economy, and on Alberta and Saskatchewan in particular. In our eyes, these two conclusions do not align. It makes no sense to predict that the national economy will do just fine even as a third of the economy located in the West will be severely impacted. Something does not compute.

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23 Pembina Institute and David Suzuki Foundation. *Ibid.* Page iv.

24 *Ibid.* Page iii.

25 *Ibid.* Page iii.

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The results of the study carry the seductive and pernicious message that meeting climate change policy objectives is almost cost free, and to the extent that there are costs, that they can be largely confined to the western Canadian provinces of Alberta and Saskatchewan. The message is that the problem lies not with our consumption of energy, but rather with the producers of the energy we so willingly consume and export. And, given that so many of the producers are to be found in provinces that are doing well economically, those provinces can afford to carry the burden. Tough luck, indeed.

Finally, the Pembina/Suzuki study assumes that one can surgically extract the western Canadian economy from the national economy without doing serious harm to the latter, that we can have strong economic performance in the rest of Canada even though the western Canadian economy will be deeply and permanently distressed. This, we would suggest, is a foolish assumption.

We hope that the Pembina/Suzuki study's general willingness to accept unequal regional costs is an oversight, that we can find better ways to share the load. If not, it is a bad starting point for a national policy and a recipe for failure. Either we are all in this together or we are not. If we are not, no matter how much you want to address climate change, the nature of Canadian politics will scuttle the plan. We can do better than this. If we don't, the residents of Alberta and Saskatchewan will suffer unduly and the federation will be severely strained. ■

## About Canada West Foundation

Canada West Foundation is the only think tank dedicated to being the objective, nonpartisan voice for issues of vital concern to western Canadians. Through our research and commentary, we contribute to better government decisions and a stronger Canadian economy.

The West is in. And Canada West Foundation helped put it there. Over the past 40 years, our research and commentary has improved government policy and decision making. Today, the West has been a part of the national agenda and has been at the forefront of the most important debates that have shaped our country.

We give the people of British Columbia, Alberta, Saskatchewan and Manitoba a voice. A voice for their dreams, interests and frustrations. As westerners, we understand the people and the places of the West. We know our history and how it influences our future. Whether it is the economy, environment, education, healthcare, taxes, energy, social services, urban issues, provincial-federal relations or any other policy area of importance to the West, we have researched it, commented on it, stimulated debate about it and recommended practical options for improving the policy response. Democracy lives.

Canada West Foundation is known and respected for its independence. No one tells us what to say, even though we are engaged by all levels of government, all types of companies, associations and philanthropic foundations. As a registered Canadian charitable organization (#11882 8698 RR 0001), donations ensure our research is available and free, so everyone can benefit.

Our credentials are impressive. We have the policy and economic experts you need. Our Board of Directors represent the who's who of the four western provinces. Our list of projects is long. We're just like the West. Absolutely essential. Absolutely part of Canada's success.

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