

TWO ROADS TO KYOTO: MORE OR LESS



Will Canadians work towards our Kyoto commitments by doing less, or by doing more? That's the fundamental choice, and it will determine whether Kyoto is good or bad for the economy. Positive, proactive measures to reduce greenhouse gas (GHG) emissions is a better strategy than consuming less, driving less and turning down the thermostat. Canadians can continue to do the things they like doing, including driving and staying warm in the winter, but do those things more efficiently. An economist with the Canadian Auto Workers, Stanford points out that while the use of motor vehicles is a major source of GHG emissions, the manufacture of cars is not. While figuring out how to reduce auto emissions will be important to Canada's Kyoto strategy, there must be other culprits than SUV drivers.

Jim Stanford

Pour remplir leurs engagements du protocole de Kyoto, les Canadiens feront-ils plus ou feront-ils moins ? Ce choix fondamental déterminera si le protocole viendra stimuler ou compromettre notre économie. Stratégiquement, on serait ainsi mieux avisé d'adopter des mesures positives visant à réduire les émissions de gaz à effet de serre plutôt qu'à décourager la circulation routière ou la consommation de biens et d'énergie. Les Canadiens peuvent continuer de se balader en voiture et de bien chauffer leurs maisons, bref de faire tout ce qu'ils aiment faire mais de façon plus efficiente. La conduite automobile est une source majeure d'émissions de gaz à effet de serre, reconnaît Jim Stanford, économiste au syndicat des Travailleurs canadiens de l'automobile, mais la production de voitures ne l'est aucunement. S'il est important pour le Canada de réduire les émissions liées à la conduite automobile afin de se conformer aux normes de Kyoto, les propriétaires de véhicules utilitaires ne doivent pas être les seuls à en faire les frais.

Most Canadians support our ratification of the Kyoto Protocol for a profoundly non-economic reason. They worry about what kind of hellish lives their children and grandchildren will have to lead if the Earth's temperature continues to rise as a result of human industrial activity.

Yet most of the debate regarding Canada's ratification of Kyoto has focused on economic issues. Of course, this partly reflects the advertising and lobbying efforts of a well-funded corporate constituency that has identified a vested interest in a particular outcome to the debate. With their TV ads and their weighty briefing documents, the corporate lobbyists have played the economic card heavily, viewing it as their best hope for sowing doubt in the minds of Canadians about the wisdom of our Kyoto commitments.

But the debates over Kyoto and the economy also reflect some real, underlying choices about exactly how our Kyoto commitments will be attained. The business lobbyists argue that capping our greenhouse gas (GHG) emissions will create an overarching economic ceiling or quota, which will limit

our future economic expansion. The only way to live up to the Kyoto commitments, they warn, will be for our economy to do *less* that it otherwise would have. Stagnation, dislocation and unemployment will be the outcomes.

Most Kyoto boosters, meanwhile, point to the potential economic stimulus that would be provided by the investments and innovations in many sectors of the economy that will be sparked by the effort to reduce GHG pollution. For them, striving to meet our Kyoto targets will inspire us to do *more* in our economy and to do it better. Innovation, investment and job-creation are the outcomes.

Clearly, it would be possible to meet our Kyoto commitments by either route. We could reduce Canada's GHG emissions by 30 percent, what's currently required to reach our Kyoto target, by simply cutting back all current polluting activities by 30 percent. That's why Russia, for example, is already operating far below its agreed-upon Kyoto target. The implosion of the Russian economy in the wake of free-market shock therapy there led to a parallel, but accidental, decline in pollution.

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This is the sort of scenario implied by corporate lobbyists who argue that Kyoto targets will simply suppress our economic expansion. And a few environmentalists—those who continue to argue that growth itself is the source of our environmental problems—might quietly agree—though they are keeping silent now, for obvious strategic reasons. But anyone who thinks that deliberately shrinking the economy to reduce pollution would be good for the environment hasn't visited the Aral Sea—or any number of other Russian environmental disaster zones—lately.

The alternative is to take positive, pro-active measures to reduce greenhouse emissions, rather than simply consuming less, driving less, and turning down the thermostat. Canadians can continue to do things they like to do, including consuming, driving and staying warm in the winter, but do those things more efficiently. That will require us to spend some energy, attention and money on finding more efficient ways of doing those things. And as long as the right rules and incentives are in place, that effort should boost the economy.

Will we work towards our Kyoto commitments by doing less, or by doing more? That fundamental choice will determine whether Kyoto is good for the economy, or bad. Unfortunately, the vagueness of the federal government's Kyoto implementation planning has left both sides in this debate a lot of terrain on which to invent scenarios that best fit their own arguments—whether that be a doomsday scenario of economic rationing, or a glorious windmill-powered utopia.

It is an enduring irony of the market economy that bad things can be good for the economy. The free-market system is not generally limited by the capacities of human beings to produce, but rather by their capacity to spend. In other words, capitalism is usually a demand-constrained system, not a supply-constrained one. Hence any factor that leads individuals, companies or governments to spend more money, tends to create jobs and prosperity in its wake. Wars are well-known money-makers in this regard, as are natural disasters like the 1998 Quebec ice storm, which sparked an economic mini-boom as the province rebuilt billions of dollars worth of ice-damaged infrastructure.

If it makes us spend, then responding to the unwelcome effects of climate change will clearly be beneficial for the economy, despite the

plaintive wails of those who are required to do the spending. This is another ironic feature of the market system: while it is spending money that collectively makes the economy go around, individual economic agents—consumers, corporations, governments—generally each try to spend as little money as possible. A strategy to meet the Kyoto commitments in a manner that enhances our economy, rather than undermines it, will seek out avenues in which GHG emissions can be cut back by doing more work and more spending, not less. And a successful economic strategy for Kyoto will also need to carefully determine how that new spending is going to be encouraged—that is, what significant change in incentives or regulation will be required to produce a corresponding significant change in economic behaviour, and how that spending will be financed.

On both counts, the federal government's October draft Kyoto plan falls well short. It still relies heavily on asking Canadians to do less, not more. The plan's vague "one-ton" challenge to individual Canadians, asking them each to cut back their personal emissions of greenhouse gases by one ton, reflects an underlying assumption that the key to meeting Kyoto lies mainly with getting Canadians to get by while doing less: less driving, less heating, less air conditioning. Moreover, the federal plan provides no obvious or convincing economic rationale for the change in behaviour that it is counting on: it relies heavily on naive moral suasion and voluntarism.

Where are the major changes in relative prices that are necessary to get consumers and companies to truly think differently about their energy use? The federal government is still trying to tiptoe around the regional sensitivities created by the oil and gas industry's huge contribution to our greenhouse problem and won't countenance any scary talk of carbon taxes or similar measures. Thus we are expected to believe that we can significantly reduce our consumption of energy while maintaining energy prices at their current historically low real levels. Any first-year economics student can tell you that this doesn't add up.

If major increases in relative energy prices are not there to encourage the desired conservation and energy efficiency, what about alternative conservation incentives such as big credits for insulation retrofits of existing buildings? Toronto's Atmospheric Fund and other experi-



A member of the Canadian Auto Workers on a GM assembly line: Driving cars is a major factor in GHG emissions, making them isn't.

mental initiatives have shown that these types of credits can be very effective at stimulating energy conservation spending by homeowners. They've also proven that energy conservation can go hand in hand with job creation, not job destruction. While the federal government has funded some of these experimental programs, there's no overall plan for offering them broadly enough to elicit the big changes in behaviour that Kyoto implies. Here, too, the government is tiptoeing, shying away from the major spending commitments that would back up its fine words about Kyoto with some real fiscal muscle.

So Canadians are left with a rather pessimistic menu of choices. From business they are told that Kyoto will mean economic destruction and job loss. The government argues, justifiably, that these doomsday scenarios are groundless, but then tells Canadians they can meet Kyoto commitments simply by driving 10 percent less and turning down the furnace a degree. Either scenario implies that Kyoto means less, not more. And both scenarios miss the potential economic upside that would be generated if we saw Kyoto as an opportunity to do more in our economy, not less.

The auto industry is Canada's most important manufacturing and export industry. It's also an industry that's been tagged—rightly or wrongly—with a lot of the blame for climate change. Many media portrayals have created a stereotype that global warming is due entirely to gas-guzzling SUV drivers. But in fact, Canadians' total light vehicle use—including SUVs—accounts for barely one-tenth of Canada's total GHG emis-

sions. So while figuring out how to reduce light vehicle emissions will be an important part of our overall Kyoto strategy, we could stop driving altogether and still meet less than half our Kyoto commitments. It seems there must be other culprits out there somewhere, in addition to the SUV-driver.

While the use of motor vehicles is a significant source of GHG emissions, the manufacture of motor vehicles and parts is not. These industries together account for a small fraction of one percent of total Canadian emissions, even though they account for one-quarter of Canada's exports. Hence they have even been exempted from the federal

government's plan to target major industrial energy users—simply because their emissions are trivial in the big picture.

This hasn't stopped auto industry lobbyists, however, from enthusiastically joining the corporate piling on against the government in opposition to Kyoto. They threaten lost investment, lost production and lost jobs at a moment when the auto industry already faces major challenges from declining investment and booming imports. Canada's compliance with Kyoto clearly poses some significant challenges to the auto industry. If getting to Kyoto means—as some federal documents seem to imply—buying fewer cars and driving them less, then this would indeed be harmful to the auto industry. But if the industry and government respond to the Kyoto challenges with strategies that involve doing more, not doing less, then Kyoto could be an automotive boon.

Here's a simple example. Not all environmentalists are thrilled with them, but hybrid fuel vehicles seem to hold considerable potential for reducing GHG emissions while still respecting North Americans' apparently God-given right to drive. A hybrid vehicle contains two engines: a conventional gasoline engine for high-efficiency cruising, and an electric engine, charged by the movement of the vehicle itself, to help with starts, stops and hills. They cost more than other vehicles; after all, they have two engines. But building and installing two engines means more investment, more technology and more jobs, not less, on the assembly line. Honda already markets a hybrid vehicle in

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North America—the tiny two-seat Insight—which gets 68 miles to the gallon—but it's not selling. Meanwhile, Ford will soon bring to market a hybrid-powered SUV and expects enough demand to keep an entire dedicated factory humming. The lesson here: ask consumers to do less and they'll shop somewhere else. Show them how to do what they already do, but do it more efficiently, and they might buy in—producing jobs in the process. Of course, a tax incentive in the US market of \$2,000 per hybrid vehicle doesn't hurt, either.

Many other opportunities exist for helping Canada's auto industry make its rightful contribution to the climate change effort, but in a manner that boosts its important contribution to our economy at the same time. We need more R&D spending in Canada to develop domestic fuel-efficient technologies and capabilities. We need incentives to promote the early commercial production in Canada of zero-emission or low-emission vehicles, along with parallel measures (tax incentives and mandatory market penetration targets) to promote their use in Canada. We need sensible measures which push the automakers to continue to improve the average fuel efficiency of new vehicles, in ways which do not prejudice our own domestic producers. We need regulations regarding motor vehicle recycling and other policies to promote steel recycling, measures which would mesh with a broader strategy to help Canadian steel producers meet their own, more significant Kyoto challenge. We need incentives, including higher gasoline taxes, as well as direct trade-in allowances, to encourage owners of old-model gas-guzzlers to scrap (or recycle) their vehicles in favour of newer, more efficient models.

All of these measures would lead to more work being done in Canada's auto industry, not less. After all, enhanced fuel efficiency generally requires that more content and value be added in a vehicle, not less. Hybrid fuel systems are just one example; the same rule applies to improved transmissions, like continuously variable transmissions, which are helping the European automotive industry meet its more stringent fuel efficiency targets, and variable valve control and direct-injection technologies in engines that are playing a similar role for the Japanese industry.

For obvious reasons, automakers hate anything that adds to the legislative cost of the vehicles they produce. If they're going to add content, and hence price, to their vehicles, they'd

prefer to do it through optional features that enhance the profit margins of the vehicles they sell—features like satellite navigation systems or built-in TVs in minivans. This explains why automakers fiercely resisted previous legislative requirements enforcing better quality, safety and environmental standards for motor vehicles, from stricter crash test standards to catalytic converters to even the compulsory installation of seatbelts. But the auto industry adjusted to each challenge posed by these requirements, finding market-efficient ways to meet the new standards—and all the while the real price of new vehicles continued its long-run decline. Prodding and pushing the auto industry to build Kyoto-friendly vehicles will be a similar process.

The bigger problem, however, is that all of these expansionary Kyoto measures would also require government to play a more active role in shaping and regulating the auto industry, on both the demand side, influencing the type of vehicles that are bought, and the supply side, influencing the types of vehicles that are made in Canada. This will require significant government resources to be allocated, and a willingness for government to step back from its current *laissez faire* approach to economic and industrial policy.

To date, the federal government hasn't shown it is willing to go this route, providing the regulations, the incentives and the spending that are necessary if our industries, including auto, are to adapt effectively to Kyoto while creating jobs at the same time. The federal plan so far relies unduly on moral suasion, guilt-tripping consumers into driving less and turning down their thermostats. This is not likely to be effective at changing our collective economic and environmental behaviour—and it certainly won't help Canadian industry to meet Kyoto commitments in a positive, expansionary fashion.

So let's hope that once the federal government ratifies the Kyoto Protocol, we move on to another, more concrete and constructive discussion about exactly how those commitments are going to be met. That is the discussion that will determine whether Kyoto gives us an opportunity to do more work as we move to protect the environment, or whether it forces us to make do with less.

Jim Stanford is the economist for the Canadian Auto Workers, which represents 250,000 members in the auto industry and several other sectors of the Canadian economy.