KYOTO AND THE ABSENCE OF LEADERSHIP IN CANADA'S CAPITALS

Ian Urquhart

A University of Alberta professor asserts that Alberta's case against Kyoto is "wrong-headed," arguing that it rests on a dubious foundation—the relationship between energy consumption and economic growth. As for the challenge of Kyoto emission reduction goals in the oil patch, British Petroleum has already reduced emissions to 10 percent below 1990 levels, "at no economic cost," according to BP chairman Lord Browne. As to the suggestion that Kyoto represents a second coming of the National Energy Program, the comparison is inapt. The NEP was a confiscatory regime and a utopian scheme to create a made-in-Canada oil price in global markets. Kyoto implementation costs are likely to be much more incremental than the apocalyptic scenarios suggest. Kyoto also represents an opportunity to create federal-provincial strategies for reducing greenhouse gas (GHG) emissions for the benefit of all regions. What's missing is genuine leadership, which is nowhere to be seen in Canada's capital cities.

Selon ce professeur de l'Université de l'Alberta, l'opposition butée de cette province au protocole de Kyoto repose sur l'improbable lien entre consommation d'énergie et croissance économique. Pour ce qui est de réduire les émissions issues des nappes de pétrole en conformité avec les objectifs du protocole, il rappelle que la société British Petroleum a déjà réduit les siennes de 10 p. 100 au-dessous des niveaux de 1990 sans engager « aucun coût économique », comme l'a déclaré son président Lord Browne. Il est tout aussi inopportun de prétendre que Kyoto marque le retour de la Politique nationale de l'énergie, un régime confiscatoire et utopique qui visait à imposer sur les marchés internationaux un prix du pétrole spécifiquement canadien. Les coûts de mise en œuvre du protocole de Kyoto seront vraisemblablement plus accessoires que ne le suggèrent les scénarios apocalyptiques de ses détracteurs. Sans oublier qu'il s'agit d'une occasion d'élaborer des stratégies fédérales-provinciales visant à réduire au profit de toutes les régions les émissions de gaz à effet de serre. Mieux vaudrait créer en la matière un authentique leadership, lequel a largement fait défaut jusqu'ici dans les diverses capitales du pays.

In Alberta, public support for the Kyoto Protocol appears to be melting as quickly as snow during a mid-winter chinook. Public opinion polls suggest that support for ratifying Kyoto fell nearly 20 percent, from 72 percent to 54 percent, between April and May of this year. Now, after a six-week provincial advertising campaign claiming that Kyoto will cripple Alberta's fossil fuel-dominated economy, signs abound that the Klein government's anti-Kyoto position is winning the public relations campaign. When given the options of doing nothing, ratifying Kyoto, or withdrawing from the Protocol and instead developing a "made-in-Canada" plan for reducing emissions, Albertans now overwhelmingly (72 percent of respondents to a late-October Ipsos-Reid poll) endorse withdrawing from Kyoto.

At the risk of being run out of Alberta on a rail I believe this opposition to Kyoto is wrong-headed. Its fundamental premise, that implementing Kyoto is necessarily catastrophic for the Alberta energy sector, may be shakier than most Kyoto commentaries admit. Perhaps instead of fighting Kyoto, Alberta should view this international agreement as an opportunity to create federal-provincial partnerships where the provinces will play an important and continuing role in developing national climate change policies.

Alberta's argument against Kyoto rests primarily on one foundation: the relationship between energy use and economic growth and prosperity. The protocol must be rejected because absolute reductions in energy use during Kyoto's first commitment period—2008 to 2012—cannot deliver continued prosperity. On the contrary, Alberta's public relations campaign insists that ratifying Kyoto will devastate the economy. This insistence explains Alberta's preference for reducing "emissions intensity"—the amount of greenhouse gases (GHG) emitted relative to the provincial GDP. Alberta's alternative would not produce any absolute emissions reductions in the province by 2020, let alone by the end of Kyoto's first commitment period. In fact, under Alberta's plan, GHG emissions in the province would be 27 percent higher in 2020 than they were in 1990 (218 megatons of carbon dioxide equivalent versus 171 megatons in 1990).

But, is Alberta's premise correct? Do absolute reductions in energy use necessarily sacrifice economic growth? Do absolute reductions in GHG emissions necessarily sacrifice corporate profitability? On the economic growth front, economies can grow and prosper while energy use is reduced. The most compelling evidence here doesn't rest in the promises of environmental activists; it's found instead in recent American history. After the Iranian oil price shock, American GDP grew by 20 percent between 1979 and 1986; total energy use, however, fell by five percent. The American economy grew while energy use shrank largely because Americans improved the energy efficiency of their activities.

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Those who are concerned that corporations, especially energy firms, will necessarily become unprofitable and uncompetitive if they are required to reduce their GHG emissions should consider the experience of British Petroleum. In 1997 BP accepted the logic underlying the Kyoto Protocol. Sensing that Kyoto's targets would eventually be mandatory, the company established a target of reducing its own greenhouse gas emissions to 10 percent less than their 1990 levels by 2010. Last spring Lord Browne, the firm's chief executive, announced that BP had reached its goal eight years ahead of schedule. By improving the efficiency of BP's operations, by adopting new technologies, and by better managing the company's use of energy, British Petroleum met its goal, in Browne's words, "at no net economic cost—because the savings from reduced energy inputs and increased efficiency have outweighed all the expenditure involved." BP's story illustrates well how tackling GHG emissions may actually improve a company's competitive position. In fact, as the Pew Center on Global Climate Change has found, improving corporate competitiveness spurs companies to look for ways to reduce GHG emissions.

Can firms in Alberta's oil patch duplicate British Petroleum's double-barreled success? The most challenging test of this proposition will be found in the oil sands sector of the industry. This sector, destined to become Canada's largest source of oil, is also where the energy industry's operating and production costs are the highest. The profitability and competitiveness concerns associated with implementing Kyoto therefore loom larger for oil sands producers than they do for most of the producers of conventional oil. These concerns and the federal government's failure to outline Kyoto implementation costs have been responsible for several announcements that may lend weight to Alberta's opposition to the Protocol. They were partially responsible for Husky Energy's decision to delay engineering studies needed in order to expand its Lloydminster oil sands upgrader. A second major player in the oil sands, Canadian Natural Resources, cited these uncertainties as being solely responsible for the firm's decision to cut its 2003 engineering budget for its Horizon oil sands project. Although Canadian Natural Resources expects the federal government to adopt policies that will not imperil oil sands development it will scale back its engineering work until it receives that signal from Ottawa.

Suncor Energy, Canada's second largest oil sands producer, has quite a different outlook. Suncor seems more comfortable with the logic of Kyoto and appears confident that implementing the Protocol will not ruin its bottom line. The company already has started to reduce the amount of greenhouse gases emitted per barrel of production, to invest in renewable energy projects, and to trade carbon dioxide emission credits. Rick George, Suncor's president, believes his company will be able to meet the environmental and economic challenges of ratifying and implementing Kyoto. Suncor's promise is to absorb Kyoto's implementation costs while continuing to reduce its operating costs.

A crucial assumption underlies George's confidence that Suncor simultaneously will be able to satisfy this environmental and economic combination. He expects the federal government to honour its commitment that no economic sector or region of the country will face an excessive implementation burden. The rhetoric from Alberta's political leaders suggests this is a silly assumption to make. Premier Klein and other key ministers regularly conjure the ghost of the National Energy Program (NEP) as part of their attack on Kyoto. The Premier has suggested that only the NEP rivals Kyoto for the unflattering distinction of being "the goofiest, most devastating thing" ever proposed by a Canadian government.

There are several reasons to favour the Suncor president's interpretation of how Ottawa is likely to behave. First, to invoke the memory of the NEP as the critics of Kyoto often do ignores the policy measures successive federal governments have implemented to strengthen petroleum producers in general and oil sands producers in particular.

Beginning with the Canada-United States Free Trade Agreement of 1988 the federal government turned its back on the NEP's style of intervention. Through the FTA and NAFTA the federal government placed important limits on its taxation and energy supply management powers, limits sought by the energy industry. Significant federal tax policy changes introduced in the 1996 budget, not just the royalty revisions made by the Klein government, helped to launch the current oil sands investment boom in northern Alberta. Second, the support the federal government has shown to oil sands development through these significant initiatives lends credibility to published reports suggesting the federal implementation measures are likely to raise oil sands operating costs marginally—by less than 15 cents per barrel. Morgan Stanley, the American investment firm, estimates in its "most likely" Kyoto ratification scenario that the potential cost increase to oil sands producers will range between 4 and 11 cents per barrel; at 11 cents per barrel Kyoto would add less than 1 percent to Suncor's average per barrel annual operating costs. Not surprisingly, Morgan Stanley views Canada's oil sands sector as an attractive investment opportunity.

Taken together, these factors offer an alternative, more optimistic, perspective on what implementing Kyoto could mean for Alberta's energy industry, unquestionably one of the country's most significant economic engines. It infers that policy instruments exist that could help Canadian governments implement Kyoto without crippling Alberta's petroleum producers. Some of these instruments have been delivered through important concessions Canada secured during the Bonn and Marrakech rounds of Protocol negotiations. These concessions, on subjects such as carbon sinks and international emissions trading, significantly reduce the size of the cuts in domestic GHG emissions Canada must make in order to meet its Kyoto target. For example, under Kyoto's carbon sinks provisions Canada has the potential to meet 20 percent of its annual emissions reduction target through forest and land management practices. In respect to emissions trading, Canada helped to ensure that the emissions trading language is such that parties to the Protocol have a great deal of latitude to rely upon trading as a way of reaching national emissions reductions targets. The refusal of the United States to ratify Kyoto is likely to make international emissions trading more appealing to Canadian governments and companies. The American refusal to accept Kyoto eliminated what would have been the most significant source of demand for the emission credits that countries like Russia and Ukraine will sell in a CO2 emissions market. Therefore, analysts expect the price of carbon credits in an international emissions market to be far below what it would have been with American participation.

Despite the presence of mechanisms that could be used to ease the costs of implementing Kyoto in Alberta and elsewhere, the risk of serious federal-provincial conflict, perhaps in the form of a constitutional challenge, is very real. Governments on either side of the Kyoto divide may be too entrenched in their positions to appreciate something we have heard too little of during this country's Kyoto debate: this international agreement offers the possibility of developing federal-provincial strategies for reducing GHG emissions that would benefit all regions. This message, like genuine leadership on the Kyoto file, is nowhere to be seen in Canada's capital cities.

Obviously delivering, let alone acting on, this message is a difficult challenge. These are actions, however, that I believe Alberta is particularly suited to take. Alberta's contemporary political history should make those of us in the West particularly sensitive to the opportunities that may be lost if no one searches for a federal-provincial partnership. Alberta's warriors against Kyoto, Premier Klein and former Premier Peter Lougheed, should reflect for a moment on the very history—the NEP—they use to drum up public opposition to Kyoto. An important aspect of the conflict over the National Energy Program, one that was ignored during the energy wars of twenty years ago, was the failure of the NEP's federal architects to recognize that petroleum-driven growth in the West could benefit other regions. Lougheed was right to criticize Prime Minister Trudeau's call in 1980 for a "made-in-Canada" oil price, a foundation of the NEP. Too many central Canadian eyes were closed to the benefits that could have flowed to Ontario and other provinces through the accelerated petroleum resource development a move to world oil prices would have encouraged. The call for a "made-in-Canada" oil price, federal-provincial bickering over shares of economic rent, and federal efforts to steer exploration activities onto "Canada" lands in the north and offshore—for the political purposes of the NEP, Alberta was not a part of Canada—blinded policy-makers to important linkages between the Alberta and Ontario economies. These linkages meant that strong, petroleum-driven growth in the West could deliver substantial economic benefits to

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Ontario; energy mega-projects in the West could deliver jobs to central Canadian industry.

Today, the very people who rebelled against the Trudeau government's "made-in-Canada" oil price policy advocate a "made-in-Canada" alternative to Kyoto that is just as short-sighted as Trudeau's vision was in 1980. Like that earlier vision, today's assumes that Canadian governments cannot respond to international forces and work together to develop strategies and policies offering benefits to Canadians across this country.

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Can the impasse be broken? To avoid the sense of déjà vu some of us will feel if we experience yet another Alberta-Ottawa resource-related battle, our politicians will have to heed the counsel of Bernard Crick. He is a champion of "normal politics," a politics where rivals forego "winner take all" strategies and are prepared to compromise and recognize the legitimacy of their opponent's position. Instead of asking "who is in the right?" Crick urges political actors to try to understand the legitimate concerns that most likely drive their opponents and they must craft policies and institutions that address and respond to those legitimate concerns and try to encourage compromise.

Hydroelectricity development, given its tremendous potential to displace coal-fired power plants and reduce Canada's GHG emissions, might be used to secure the type of federal-provincial partnership Crick would approve of. The plan would call for significant, and expensive, improvements to the interprovincial transmission network in Canada so that hydroelectricity from Québec, Manitoba, and British Columbia could flow more easily to Canadian markets where electricity is produced from burning fossil fuels. The National Energy Board (NEB), today a virtual eunuch with respect to regulating the electricity trade, would be reinvigorated and asked to play a more active role in guiding interprovincial and international trade.

The provinces would undoubtedly object to the effort to strengthen the national profile in this policy field. Such objections, given the federal government's historical treatment of provincial interests in resource development, would contain an important kernel of legitimacy. They might be addressed by revisiting proposals for institutional change made by Alberta in the late 1970s. Then, responding to the impact federal regulators were having on provincial development, Alberta recommended that provincial governments appoint 40 percent of the members of federal agencies such as the NEB. This sort of institutional change would respect the legitimacy of federal and provincial interests in this policy issue. Moving in this direction could be an important step towards establishing the beginnings of a federal-provincial partnership to reduce GHG gas emissions; it would strengthen Canadians' reliance on one another as we try to secure a better future. Sounds pretty damn Canadian—and Albertan—to me.

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KYOTO PROTOCOL THERMOMETER

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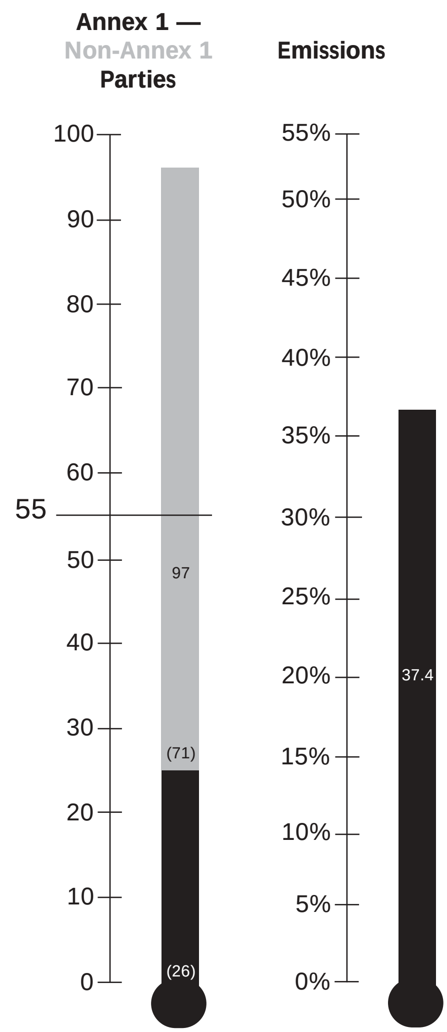

The rules for entry into force of the Kyoto Protocol require 55 Parties to the Convention to ratify (or approve, accept, or accede to) the Protocol, including Annex I Parties accounting for 55 percent of that group's carbon dioxide emissions in 1990.
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