

There Are No “Good Guys” and “Bad Guys” in Climate Change

Christopher Ragan
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Last week the Globe and Mail released the results of a new survey showing that 71 percent of Canadians support new taxes on businesses that emit greenhouse gases. Yet only 41 percent are willing to face new taxes on gasoline and even fewer approve higher taxes on heating oil. These results point to a troubling conundrum that we need to confront if we are going to be smart about addressing climate change.

The good news from this survey is that the majority of Canadians recognize climate change to be a genuine problem and favour increased action to reduce GHG emissions. They also support using fiscal tools to drive that action, which is sensible because pricing carbon is almost certainly the most cost-effective way of cutting emissions. But there is also a troubling disconnect in the survey results – about *who* should be the main focus of any policy.

When it comes to greenhouse gas emissions, it is tempting to depict businesses as the “bad guys” and consumers as the “good guys”. If only those bad guys took responsibility for their emissions, everything would be okay. But that’s not how markets work. Consumers and businesses are equally involved in market activity. When consumers demand carbon-intensive products – and we all do, every day – businesses naturally provide them. And if new policies force businesses to incur higher costs when making those products, consumers will need to pay more to get them. So businesses and consumers will all feel the effects of a carbon-pricing policy.

But that’s exactly why carbon pricing is so effective. By raising the relative prices of emissions-intensive products, everyone will face powerful incentives to reduce emissions. Consumers will change which products they buy and how much; firms will adjust which inputs they use and how they produce, and will also innovate cleaner ways of doing business. The reduction in emissions will be good for the environment; the innovation will be good for the economy.

It is especially important to recognize the central roles of consumers and businesses in a country like Canada, where we both consume and produce lots of fossil fuels. Many Canadians seem to believe that the production of oil, but not its consumption, is the main problem – and so they think climate policies need to be aimed mostly at oil companies. Hence the extreme view that if we are to reduce carbon emissions we need to place dramatic limits on Canada’s oil patch, maybe even with an outright moratorium on development.

But the truth about oil’s GHG emissions is actually quite striking. Of the total emissions that eventually come from a barrel of oil, roughly 80 percent occur when the oil is used – typically when it is burned to produce energy. Only 20 percent of the emissions are generated when the oil is actually produced.

An effective carbon-pricing policy should thus be aimed at all the millions of users – not just the producers – of fossil fuels. Alberta and Saskatchewan and Newfoundland and Labrador could implement comprehensive and well-designed carbon-pricing policies and still have large and profitable oil sectors. In fact, a widespread carbon price in those provinces would drive a cleaner and more innovative oil sector – one much better positioned to compete in a global economy in which low emissions are increasingly being valued.

This gets me to a final, critical point. Canadians are justifiably concerned about how a carbon price would affect their wallets. But most of us don't realize how much we're already paying because of climate change. From property damage due to extreme weather events to the loss of economic value of our forests, and many other things in between, these costs are large and mounting. In addition, our governments could always choose to follow British Columbia's example and return every penny of the carbon-pricing revenues by reducing existing income taxes.

The world is gradually moving away from carbon, and will move much further over the next 50 years. The sooner we start pricing carbon in a simple and transparent way, the sooner our businesses and consumers will begin their transitions toward a cleaner and more innovative economy. And the better positioned they will be to compete in a lower-carbon world.

It's time to get beyond debates about "good guys" and "bad guys". Canadian businesses, consumers and governments should all come together and focus on doing what works.

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