# **Why Carbon Pricing Will Help to Secure Alberta's Economic Future**

Christopher Ragan
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As Alberta's new government assembles its troops and redesigns its policies for reducing greenhouse-gas emissions, the need for greater environmental protection will be an obvious rallying cry. But Premier Rachel Notley should also be sure to make the case that pricing carbon emissions is very much in Alberta's economic interests.

Many will wonder whether that last sentence is a mistake. How can attaching a financial penalty to carbon emissions be in the economic interests of a province so rooted in the production of fossil fuels? There are two reasons, each regarding a different kind of "market access."

Alberta produces far more oil and natural gas than it can use at home, so getting these products to global markets is essential if these resources are to generate provincial income. Without the necessary pipelines, the products can't get to global markets at all, get there only with costlier and higher-risk rail transport, or produce localized gluts that reduce the price for Alberta's producers. Pipelines really matter.

Proposed pipelines aren't being built today because they have become a flashpoint in the debate about environmental policy. Isn't it remarkable that most people can name the three or four pipelines on the drawing board, even though few can name any of the dozens that have existed for years?

A new and better policy framework in Alberta – one designed to reduce carbon emissions fairly and efficiently across the entire economy – offers some hope that Alberta's environmental black eye will heal, and that the emotionally charged pipeline debate will subside.

Some will say this hope is naive, mostly because many environmentalists aren't prepared to enter into a bargain that essentially offers new pipelines in return for better environmental policy. Maybe that's true, maybe it isn't. But it is almost inconceivable that the current opposition to pipelines will do anything but increase in the absence of a much more credible climate policy in Alberta.

The second reason carbon pricing is in Alberta's economic interests is actually far more important than the possibility of new pipelines. It's about Alberta's ability to continue selling any of its valuable resources for the next few decades, as the world continues using huge amounts of fossil fuels.

The global economy currently produces, transports and consumes about 93 million barrels of oil every day. Credible long-run forecasts show this number increasing over the next 20 years before peaking at roughly 110 million barrels – and then starting its long-run decline to levels far below today's.

These long-range forecasts obviously contain many potential sources for error, but the essential underlying economic forces are pretty simple. Continued global economic growth, based very strongly on energy, will increase the demand for oil over the next few decades when most renewable energy sources are not economical enough to offer a large-scale replacement. But as renewables get more efficient and their costs decline, they will eventually start to displace fossil fuels, and this is when we see the global oil industry start its long-term contraction.

Where does Alberta fit into this global picture? The province would obviously benefit economically by selling its resources into this world market, but there's a crucial problem: Alberta's oil, especially the unconventional variety from the oil sands, is significantly more costly and more emissions-intensive than oil from most other jurisdictions.

As the global oil market first expands and then contracts over the next few decades, the producers that will soonest be priced out of the market are the high-cost and emissions-intensive ones. Alberta's oil producers can only secure their access to this evolving global market by significantly driving down their costs and reducing their emissions.

How could carbon pricing help? The whole point of the policy, even though it increases companies' costs in the short run, is to create a powerful financial incentive for them to invent innovative ways to reduce costly greenhouse gas emissions. Over time, these innovations can have a huge effect, and reduce other production costs as well. The government could help to increase innovation and reduce costs even further if it committed some fraction of the carbon-pricing revenues to investing in the development of cleaner technologies.

Alberta is economically blessed to have natural resources that the world will value for many years to come. But its place in that global market is anything but secure. A much better carbon-pricing policy should be seen as invaluable for Alberta's economic future.

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