

Alberta + Kyoto: A Win-Win Climate Change Action Plan

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An abridged version of this article appeared in the June 10, 2002 *Calgary Herald*, pg. A15.

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We think that Canadians may be getting a bit tired of the federal – provincial bickering on climate change action. We believe it's possible to find a win-win solution not only for the climate itself but as well for the two levels of government. But first some issues need clarification.

Responding to the Ipsos-Reid poll (May 29, 2002) showing that 72% of Albertans “personally support ratifying the Kyoto protocol,” a spokesperson for Alberta Environment stated that “the bottom line is the reduction of greenhouse gas emissions, and that's what our plan does.” She went on: “We're going to achieve everything Albertans want and more – it just doesn't have to be under Kyoto.” Well, the truth of the matter is, not quite everything: The great majority of Albertans want Kyoto and its targets to be achieved. However, the Alberta Plan by itself does not even pretend to do this.

The Alberta Plan promises to reduce emissions slightly below Kyoto targets by 2020, but only for its so-called “domestic emissions,” excluding emissions generated when energy is produced for export to either the rest of Canada or the rest of the world. In effect Alberta is saying that those “exported emissions” are somebody else's responsibility. And this is not a trivial amount of greenhouse gases. Here are the numbers: 58 megatonnes (Mt) of

greenhouse gases in 2000 and a projected 94 Mt in 2020. The emissions from Alberta's energy exports represent roughly 8% of Canada's current total and 11% of projected 2020 emissions.

Our atmosphere doesn't care where emissions are generated: All emissions end up in the same place, namely, the global climate system. But Alberta doesn't think it's fair for the province to be "charged" for emissions related to exporting energy, even though firms here and the provincial coffers get well paid for selling them. OK, so let's find somebody else to take responsibility for Alberta's exported emissions. How about the Government of Canada? That's a convenient solution, since in effect the federal government has already said in Option 4 of its action plan that it will try to obtain international credit for emissions related to energy exports to the U.S. equivalent to 70 Mt of carbon. Alberta's share of energy exports to the U.S. is 42Mt currently, rising to 73Mt in 2020.

So we're getting close, but we're not quite there yet. Alberta wants another ten years, from 2010 to 2020, to complete its plan. Fine: The Government of Canada can purchase credits for the remaining gap (in effect "bringing forward" the emissions reduction achievements from 2020 to 2010) through emissions trading on the international market. Now we're done: Alberta takes care of its "domestic emissions" through its Action Plan (and let's assume that all other provinces adopt the Alberta approach); then Ottawa will take care of the rest. This solution also results in a fair allocation of the national costs among all the provinces. Alberta + Kyoto is a Win-Win plan.

Before we consolidate the two sides of the Alberta + Kyoto plans we have to back up a bit. In our last article (May 29) we suggested that, when the numbers are all in, ratifying Kyoto might turn out to be the cheapest way for Canada to meet a reasonable set of emission reduction targets. This is largely because ratifying Kyoto allows us to get valid international credits against our emissions both through good carbon management in our forests and soils and by participating in emissions trading. If we “go it alone,” as the Alberta plan proposes to do, we cannot gain such credits. This doesn’t seem to make a whole lot of sense. And yet, quite recently, we have heard a number of industry voices call into question the propriety of emissions trading, in particular, saying that it is a “disguised transfer of wealth” to poorer countries and, more seriously, that trading doesn’t benefit the environment, because we are avoiding our responsibility to make our own reductions by obtaining so-called “hot air” from allegedly unscrupulous nations.

This is a serious charge, but also a dishonest one. It has no business being in this debate at all. Here’s why: Those who were part of the intense negotiations at Kyoto will tell you (we have talked to them) that Canadian industry pressured the government negotiators strongly and persistently on one point: If you are going to sign an international agreement on greenhouse gas emissions reductions, don’t come home with a deal that does not allow emissions trading. At that point many in Canadian industry had been trying to get the Canadian federal government to set up an emissions trading system for a decade or more, following the lead of the United States, which pioneered this approach for sulphur dioxide and other air pollutants and now uses it extensively. So, the federal negotiators made sure

they got such a deal. Now a few misguided souls in industry try to turn the tables on them and say that it is an immoral thing to do!

Why is emissions trading a perfectly valid part of good environmental policy? First, for the simple reason that it is only an instrument, that is, a means to an end (some other instruments are taxes and regulations). But it is a particular kind of instrument, namely, a market-based one, which is why business people – excluding those whose opposition to Kyoto apparently has caused them to forget what good business principles are – normally like it and support it. It is sometimes also called a “flexible mechanism,” because it allows an almost unlimited range of specific strategies. Finally, but most important, it tends to be the lowest-cost type of instrument, because it encourages entrepreneurial ingenuity and technological innovation.

But the primary purpose of any such instrument is to achieve environmental protection goals. Any emissions trading regime does so by definition, because it is authorized by governments for exactly that purpose. It is called a “cap and trade” scheme and this is how it works. First, an environmental protection target is set; if the culprit is excessive emissions, then the target is set initially at some point that is below current emissions levels – in other words, emissions are “capped” at that level. (For Kyoto as a whole, the level is –5.2% of 1990 levels.)

This means that all emitters which are subject to the restrictions collectively have this target: The key objective is reducing total emissions for a defined set of polluters (companies, sectors, or nations), over a specified period of time, until they are at or below the cap, which is where they are permitted to be. The permitted amount of total emissions is allocated

among the players in that set. There is no trading regime without a cap, and the cap is the environmental protection guarantee. Usually the cap is lowered some time later, to increase the level of environmental protection, and this process can go on indefinitely.

When the first allocation occurs, some players will already be below their assigned targets; among firms, these are typically the most efficient or proactive ones. (They may also be planning to shut down their most inefficient plants.) These players in effect will have credits which they will be allowed to sell. The buyers will be other firms or sectors or countries whose current emissions exceed their permit allocations and for whom it is cheaper to buy credits than to achieve their targets in other ways, such as buying pollution control equipment. Individual firms have the flexibility to make their own choices and the market sets the prices for the permits through supply and demand.

Back to Kyoto. At the insistence of major industrial sectors, an international “cap and trade” mechanism was included in the Protocol. But only those nations which have signed and ratified the Protocol can participate in the trading. All nations which ratify the Protocol have the flexibility to choose how much they want to reduce emissions domestically and how much they want to trade on the international emissions market. Some countries, Russia in particular, will have credits to sell, because their total emissions are well below their negotiated target as of 1990.

Both the Alberta and the federal governments have suggested creating a domestic emissions trading system. Exactly how this would be integrated with an international system is not yet

clear, although one thing is certain: Without Kyoto, Canadian industry would have no access to international credits. Canadian industry is rightly concerned about the large spread in estimates for the price of carbon under an emissions trading regime. The federal Options use scenarios in which the price of carbon is either \$10 or \$50/tonne. But this forces businesses to assume the worst-case scenario of a \$50 price in their planning (however unrealistic this may turn out to be), a level at which action may be very costly. There is an appropriate solution for this dilemma: The federal government should adopt a reasonable fixed-price ceiling for domestic trading of carbon and guarantee that price to Canadian businesses which are required to trade emissions.

Now we can present our consolidated Win-Win plan. First, a revised Alberta plan should be adopted by all other provinces and territories (with suitable variations in detail) and become their common framework for their commitments and deliverables. Second, and very important, this common plan should set interim 2010 targets for emissions reductions. At the same time, Ottawa, acting on behalf of all Canadians together, should make the following set of guarantees in order to secure provincial support for Kyoto ratification:

First, Ottawa will secure a Kyoto waiver for energy exports to the U.S. and backstop this with a pledge to purchase credits on the international market for any shortfall (up to the total amount if the waiver cannot be obtained). Second, Ottawa will purchase other credits to cover the shortfall between an agreed set of provincial commitments and the 2010 Kyoto targets. Third, Ottawa will set a reasonable domestic price ceiling for carbon permits and absorb any additional costs that result.

Ironically, in its sharing of the burden of climate change action this “Alberta + Kyoto Plan” may turn out to be very close to the original federal-provincial agreement reached before the Canadian negotiators headed off to Kyoto. At that meeting the agreed-upon Canadian target was set at reductions to 1990 emissions levels. Our rough guess is that the allocation of responsibilities among federal and provincial actors in our proposed plan approximates the spirit, if not the letter, of that agreement.

Canadians overwhelmingly want our country to ratify the Kyoto Protocol, and they have held this view consistently for many years. If the federal and provincial governments will agree to sit down this Fall, after a Summer of public consultations, and work out a Win-Win plan, our citizens could get their wish for Kyoto ratification fulfilled before the end of 2002.