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Kyoto Cost Confusion

Two recent reports on Kyoto, one of them from the David Suzuki Foundation, make the case that Ottawa should not proceed with ratification.

The Suzuki Foundation found some energy analyst who argued that Canada could cut carbon dioxide emissions by 50 percent (almost double what Kyoto requires) and make a whacking \$200 billion in the process. This sort of study is a real shot in the arm for the anti-Kyoto side, since its most obvious implication is that there is no need for Kyoto. If there really are spectacular business opportunities out there that involve emission reductions while paying millions of dollars in new net earnings, the last thing we want is for government to move in with ham-fisted programs and red tape. All those profit-hungry corporations will get the job done just fine on their own.

Of course if you point this out to the authors of that report they will look surprised and try to argue that we still need Kyoto, because we will need new regulations to force corporations to act. But why, if the actions are so profitable? Good question. You can't claim that Kyoto is a financial bonanza, while at the same time saying it is so costly firms need to be forced into compliance.

But these ideas have enough steam to go round the track a few times in the course of any one conversation, and the second time round it comes out like this. Surely energy efficiency is good. Kyoto requires us to make do with less energy. So if firms and households are encouraged/persuaded/forced to use less energy, they save money. That makes them better off, right?

Wrong. Energy is never used in isolation. It is used in combination with capital, materials and—most importantly—labour, to produce outputs. Forcing firms or households to use less energy requires that they use more of something else, and that is where the costs come in.

A firm's output might be a crate of widgets; in the household the output might be dinner, or transportation to work. There isn't just one combination of capital, labour, energy and materials that yields a specific output, there may be many combinations. For instance you can drive to work or ride your bicycle, thereby saving energy and capital by using more labour. For each firm and each household the particular combination used for any particular output will be a choice based on what is most advantageous under the circumstances.

One of the commonest substitutions we all make—every day—is between energy and time. Consider the drive to work. If you have to travel Highway 401 you know that cruising speed is about 120 km per hour. And people often go at 130 or 140 km. The posted speed limit of 100 km per hour is a joke: even the cops don't go that slowly. The fleet of vehicles on the road, and the skill of the current generation of drivers, is such that the 401 can handle heavy volumes at 120 km per hour.

One of the many weird ideas in the federal Kyoto strategy is to impose a national zero-tolerance plan for speeding. The stated aim is to secure 100 percent compliance with all posted speed limits. The idea (I guess) is that this would reduce carbon dioxide emissions, but it seems to me it would require a police force almost as large as the commuting population itself, with the result that even more cars would be on the road, half of them gas-guzzling police cruisers. So it is hard to see how this would reduce traffic-related emissions.

But that's not the real problem. People go as fast as they do because they are in a hurry. Yes, a car's fuel efficiency is lower at 120 km per hour than at 90 km per hour. So what. It is not a waste of energy to go faster, it is a waste of time to go slower. Energy is as cheap and abundant as it ever was, but time gets more and more scarce every year. We shouldn't be penny-wise with energy if it means being pound-foolish with time.

This is one of the things that grates the nerves about the federal Kyoto plan. It proposes long lists of time-wasting plans and programs, aimed at forcing us to save tiny bits of energy at the cost of losing precious time. Maybe the people who come up with these ideas believe their own time is so worthless they don't mind squandering hours and days reducing their own energy consumption by a few watts per week. But do they have to make free with everyone else's time?

That brings us to the second report, which is from the C.D. Howe Institute. I was a coauthor, with my colleague Randy Wigle of Wilfrid Laurier University. In it we look at the far-fetched list of emission reduction ideas being floated for achieving the Kyoto targets and criticize both the items on the list and the economic analysis behind the cost estimates.

We conclude that, in light of the sparse information about how Kyoto will be implemented and how much it will cost, rushing to ratify is, at best, precipitous; at worst, it risks serious economic damage.

There is no such thing as a "cost of Kyoto" estimate. The cost numbers in the federal Discussion Paper released last April, and in related studies, are very sensitive to the specific package of policies used to achieve compliance. To date, the federal government has not committed itself to any specific policy package, so cost numbers have been hypothetical, and have varied widely. In some cases they have been based on implementation strategies that Ottawa has explicitly rejected, such as carbon dioxide taxes.

Seemingly minor changes to the policy regime can add many billions of dollars to the overall implementation costs. Kyoto is a target, not a policy. One can only estimate the costs of specific policy choices that might be made for achieving the Kyoto target. Unfortunately no one knows what the policy package will look like, since the federal government refuses to commit to one.

This is not because there is no plan, per se. There are lots of plans. The feds have studied upwards of 20 plans (by my count) over the past 10 years, but as soon as the numbers are released they ditch the plan. Either they dislike the political optics (as with carbon taxes) or they find the numbers too ugly, or both. In 2000 the so-called AMG (Analysis and Modeling Group) Report came out with some rather high cost estimates. Once people discovered those numbers and began raising alarms, the government backed right off. *Oh, that's not the plan*, they said, it's just hypothetical. We're working on another plan, and it will be much better.

Then they put out the new plan (or rather four new plans) last April. Gradually the details are trickling out. Professor Wigle and I had to dig long and hard to get even basic information about the April plan because

the federal Discussion Paper is so bereft of proper details. Many of the marginal cost figures for the extensive “Targeted Measures” (i.e. command-and-control policies) remain state secrets. We were told they are “too uncertain to publish.” So how is it they are solid enough on which to base the largest national economic restructuring since the Free Trade Agreement, yet they are too uncertain to publish?

Anyway it may all be moot now because as the protests mount about the April plan, the reply is, once again: *Oh that's not the plan.* We're working on another plan. It will be much better.

No it won't. There is no magic plan that will achieve Kyoto without imposing substantial economic costs.