Hamilton: It’s time to talk carbon taxes

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Canadians, if they’re truly interested in the country’s long-term prosperity and global competitiveness, have to start banging the pots and beating the drums on the issue of carbon pricing.

We have grown too silent, and this has allowed the federal government to bury the issue. But we can’t let that happen, for a number of good reasons that go beyond climate change and the environment.

One relates to innovation and productivity. Putting a price on carbon will force us to use our resources more efficiently and will drive the technology innovations that help get us there, according to a new research paper co-written by Roger Martin and Alison Kemper at the University of Toronto’s Rotman School of Management.

Canada, they write, suffers from a “woeful” productivity problem. “We don’t value efficiency enough, and don’t invest in addressing it through innovation.” It’s well understood that if we make energy more expensive it encourages industry to use it more efficiently, but the volatility of fossil fuel prices creates a disincentive for industry to make the long-term investments.

What’s lacking is certainty. One day oil can be at $150 a barrel and a few weeks later below $70 a barrel. A meaningful price on carbon makes it clear that fossil fuels won’t ever be as cheap as they once were.

“Business interests seek much greater clarity in energy policy,” write Martin and Kemper. “Investors require energy policies with the following key characteristics: transparency, longevity and certainty.”

Putting a price on carbon sends the right signals.

Having no price on carbon also threatens Canadian exports. Jeff Beyer, a research analyst at environmental consultancy The Delphi Group, wrote in the company’s blog last week that Canadian products could face intense scrutiny in Europe in the absence of domestic carbon pricing.

Think about it. The European Union, which had already committed to reducing its greenhouse-gas emissions to 20 per cent below 1990 levels by 2020, now plans to increase that target to 30 per cent below 1990 levels. Canada’s goal is a laughable 2.5 per cent below 1990 levels.

This huge gap – let’s call it a “carbon gap” – could cause some major trading pain with Canada’s second-most important trading partner, which is growing tired of doing all the heavy lifting on the climate-change file. In fact, it has led to calls within the EU for serious consideration of border adjustments, which are taxes (tariffs) imposed on goods imported from non-EU countries, such as Canada, that have less stringent greenhouse-gas controls.

“The call for border adjustments is growing louder,” wrote Beyer. “Both French President Nicholas Sarkozy and Italian Prime Minister Silvio Berlusconi wrote to the Europe Commission earlier this year insisting that border adjustments be considered.”

Beyer said this is a warning to Canadian manufacturers that do significant business with Europe. “With Europeans buying a growing share of Canadian exports, it behoves domestic companies to keep an eye on their emissions lest they be checked at the border.”

Ontario exports machinery, transportation equipment, agricultural products and raw metals to Europe. But I don’t want to exaggerate the importance of the EU to Ontario. It represents 10 per cent of Ontario exports – roughly $12 billion a year. Large, but still relatively small compared to the 82 per cent of exports that go to the United States.

Even so, trade with Europe has tripled over the past decade and exports have doubled. Do we really want to sacrifice this growth? The Conservative government insists that Canada can't move ahead with a carbon price until the United States does, and that we need to move in lock-step with our largest trading partner.

But by failing to lead, Canada – as Martin and Kemper argue – risks become less competitive on the global stage. A carbon price might be difficult to swallow initially, but it's the cod liver oil this country needs.

Now, by "carbon price" what am I talking about: a carbon tax or a cap on carbon emissions that creates a trading market for carbon credits?

Official talk of a carbon tax has become somewhat taboo in Canada, ever since former Liberal leader Stéphane Dion crashed and burned with his Green Shift campaign. But the idea still holds favour in corporate and political circles, even as Ontario, Quebec and B.C. move ahead on plans to participate in regional cap-and-trade systems.

Cap-and-trade, increasingly, is being viewed as a disaster in waiting. It's complex. It can be too easily manipulated, mismanaged and abused. We've seen this already with the trading of carbon offsets. Just last week, North American and European activists charged that one third of international carbon offsets sold under the United Nations-based Clean Development Mechanism were illegitimate.

They charged that companies are "gaming" the system by artificially boosting their emissions, only to get credit later for reducing them. Cases of fraud and market manipulation have been documented.

Previously, the World Bank charged that the organization managing the offset system is a bloated bureaucracy and that the cost of auditing offset projects to make sure they're compliant is way too expensive. It's not going to get any better.

The only answer, in my view, is a broadly applied carbon tax of the kind envisioned by Dion, who can be criticized only for his inability to sell it. Good intentions aside, Premier Dalton McGuinty is going down the wrong path with cap-and-trade.

Top economists favour a carbon tax. Major oil companies, such as Suncor and Imperial Oil, favour it. Strong support comes from all sectors and all parts of Canada.

It's simple. It's transparent. Being more visible, it's more likely to influence consumer behaviour and buying decisions. Yet, for some reason, talk of a carbon tax is still taboo.

Maybe it's because a carbon tax is too much associated with the idea of a national energy plan, which, as we know, Alberta and Saskatchewan would see as some kind of underhanded way of redistributing their resource wealth to the rest of Canada.

They can keep their wealth. The rest of Canada just wants to make sure that wealth comes from increasingly greener sources.

A carbon tax needn't take money out of either province. Rather, it can be reinvested within their own borders as long as it goes toward clean energy or other emission-reduction innovations that will ultimately help them increase productivity and diversity their economic base.

That doesn't sound so nefarious, does it?

We need to start talking seriously about a national carbon tax. We need to put a stop to the political games, the fear mongering and the endless excuses for inaction.

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