EM0218 The Globe and Mail, April 26, 2002, page A11

Kyoto impact estimates vary widely

Could add $5-billion or cost economy $23-billion in 2012, federal-provincial estimates suggest

BY STEVEN CHASE, OTTAWA

The Kyoto Protocol could cost Canadians as much as $23-billion in 2012 alone in a worst-case scenario, or it could add $5-billion to the economy that year in an ideal situation, long-awaited federal-provincial estimates suggest.

The scenarios in a working-group report obtained by *The Globe and Mail* offer the clearest indication yet that there is no consensus on the final costs to Canadians of ratifying the international deal to cut greenhouse-gas emissions.

The politically charged estimates of additional, or lost, economic growth under Kyoto will satisfy both skeptics and supporters of the pact in Ottawa and the provinces because they yield wildly divergent numbers.

The most optimistic of the various Kyoto scenarios indicates Canada's economy could actually grow by an extra 0.4 per cent in 2012, above and beyond where it would be without Kyoto. This amounts to an extra $5-billion in economic growth on top of an economy assumed to be approximately $1.3-trillion in size.

The scenarios differ according to the mix of policy measures chosen to meet Kyoto goals as well as crucial assumptions about the cost of these actions.

Under a worst-case scenario, Canada's economy could forego as much as 1.9 per cent of growth in 2012 – equivalent to losing up to $23-billion of the growth that would have taken place that year.

The estimates, which will be labelled preliminary and are expected to be re-worked in the weeks to come, present the impact of Kyoto as a snapshot of the pact's effects in 2012 alone. However, the accord would affect Canada's economy in varying degrees for years.

Ottawa and the provinces, chiefly Alberta, are expected to disagree strenuously over the implication of the estimates, which the federal government will use to build a national plan to fight climate change.

Estimates differ widely on how implementing the Kyoto agreement would affect employment, with suggestions that it could cost Canada as much as 150,000 jobs in 2012, or add as many as 80,000 jobs.

Alberta, Saskatchewan and Newfoundland stand to suffer the greatest hits in terms of missed economic growth. Under a worst-case scenario, Alberta's economic growth by 2012 could end up being roughly 5 per cent less than it would be without Kyoto – a missed opportunity worth billions of dollars a year.

Energy producers, including the oil patch, electrical generators and pipeline operators, face "substantial negative impacts" under all Kyoto scenarios analyzed, but coal would be the hardest hit in terms of foregone growth.

Under the best-case scenario, the oil patch's size would be about 1 to 2 per cent less than it would have reached without Kyoto, the electrical sector would be about 5 per cent smaller and coal producers would be more than 10 per cent smaller. Under the worst-case scenario, the oil patch's size would be about 10 per cent less than a business-as-usual situation and the coal sector would be up to 30 per cent smaller.

At the heart of diverging estimates is a major disagreement over the international cost of emission-reduction measures. Kyoto countries are permitted to buy emission-abatement measures taken elsewhere to shrink their own greenhouse-gas-emissions balance sheet. The cheaper that credits can be purchased abroad, the less money that must be spent at home.

Two scenarios assume that Canada would be able to buy emission-reduction measures at about $10 per tonne. But two other scenarios assume the price tag would be $50 a tonne (an amount many studies consider unlikely), making it far more costly to meet targets.

Fuel and power prices are also expected to rise as a result of Kyoto measures to fight global warming. Estimates suggest electricity prices could be 3.8-per-cent to 16.7-per-cent higher than they would be if actions weren't taken to cut greenhouse-gas emissions. Natural-gas prices could be between 0.9-per-cent to 7.1-per-cent higher and gasoline could rise 9.5 per cent in the worst case or decline 1.9 per cent under the best scenario.

The latest estimates don't take into account the health and social benefits of cleaner air that could result from policies to curb fuel consumption.

The article EM0218 reprinted above is used in Chapter 8 of the STAT 231 Course Materials.