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ECONOMIC INSTRUMENTS AND ENVIRONMENTAL PROTECTION

A Brief For

The Standing Senate Committee on Energy, The Environment and Natural Resources

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Introduction

Environmentalists will support the use of economic instruments to achieve environmental goals when the instruments are socially cost-effective, equitable and practical. However support for the use of economic instruments to achieve environmental goals does not imply support for using a narrow economic cost/benefit analysis to set society's environmental goals. On the contrary, society's environmental goals must be established by a democratic political process which takes into account ecological, ethical and economic considerations. In short, society's environmental targets must be consistent with the principles of sustainable development as articulated by the Brundtland Commission.

In this brief we will discuss three policy options to increase the harmony of interest between society's environmental goals and the economic self-interest of Canadian consumers and firms. To be specific, we will discuss: carbon/green taxes, tradeable carbon quotas and the reform of public utility regulation.

Carbon/Green Taxes

A system of carbon taxes would be a very cost-effective means to achieve substantial reductions in carbon dioxide emissions. For example, according to a report prepared for Imperial Oil, a system of carbon taxes could lead to a 20% reduction in Canada's carbon dioxide emissions, relative to 1990, by 2005 and a 38% real increase in per capita income.[1]

Furthermore, a carbon tax could be converted into a green energy tax by taxing hydraulic and nuclear electricity at the same rate as the carbon tax for coal. Under this scenario the energy tax burden would be equitably distributed amongst the various regions of Canada. The tax revenues could be used to reduce the GST or corporate or personal income taxes.

Tradeable Carbon Quotas

As an alternative to a carbon tax, a system of tradeable carbon quotas could be used to cost-effectively achieve a significant reduction in carbon dioxide emissions. If a high proportion of the quotas are allocated to the Governments of Alberta, British Columbia and Saskatchewan, a system of tradeable carbon quotas would not impose a net economic burden on these provinces.

Public Utility Reform

It is Government of Ontario policy that Ontario's natural gas utilities (Centra Gas, Consumers' Gas and Union Gas) should aggressively promote energy conservation. However, under the Ontario Energy Board's status quo ratemaking principles, a natural gas utility's profits are linked to its natural gas sales. That is, the higher are its gas sales,

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[1]. DRI/McGraw-Hill, Carbon Dioxide Emissions and Federal Energy Policy: A Discussion of the Economic Consequences of Alternative Taxes, (March 18, 1991); and a letter dated July 4, 1991 from George Vasic of DRI/McGraw-Hill to Jack Gibbons.

the higher are its profits and vice versa. In short, under the O.E.B.'s rules, the aggressive and cost-effective promotion of conservation will reduce a utility's profits.

At a special meeting convened by the O.E.B. during the week of September 21st, Consumers' Gas, the O.E.B. Staff, the Coalition of Environmental Groups, the Consumers' Association of Canada (Ontario), the Ontario Metis and Aboriginal Association (subject to ratification) and Pollution Probe agreed that the aggressive and cost-effective promotion of conservation should be a utility's most profitable course of action. In particular, they agreed that the link between a utility's profits and its natural gas sales should be severed. They also agreed that utilities should be eligible for financial bonuses if they aggressively and cost-effectively promote energy conservation. Unfortunately, Centra Gas and Union Gas refused to endorse the de-coupling of a utility's profits from its natural gas sales. That is, Centra Gas and Union Gas believe that they should be financially penalized whenever they promote energy conservation.

The O.E.B. will hold a hearing in November to determine whether the aggressive and cost-effective promotion of energy conservation should be a gas utility's most profitable course of action.