

One of the ideas for dealing with global warming is to put a tax on carbon-burning fuels. On the surface this would seem to make sense, but I have just finished a comprehensive analysis of what has really happened to energy demand in Canada since the early 1970s. The central finding ... is that the price impact on energy demand has been grossly over-estimated.

It is understandable why it happened. Prices went up at the same time demand went down, and that was enough for the economists to conclude there was a causal relationship...

[However] we estimated that somewhere between 40% and 50% of the improvement in energy efficiency that took place in this country between 1973 and 1987 would have happened anyway due to structural changes in the economy characteristic of all advanced industrial economies....

Quite frankly, whether or not the money is raised by a carbon tax or another point on the GST really is not going to affect the overall level of energy demand in this country very much. This energy demand, per dollar of GDP, has dropped over 30% since 1973 and it is still going down, and it is going down in all the industrial economies.<sup>14</sup>

5.22 In our view the case for a carbon tax has not yet been proved, but neither has it been disproved. In regard to the findings just quoted, it is not the overall level of energy demand that needs to be affected to reduce greenhouse gas emission, what is needed is a shift in the forms of energy used. The Committee would be against the imposition of a carbon tax (or similar device) in the present state of knowledge of its potential direct and indirect effects. The Committee believes that it would be worthwhile for Canada to acquire that knowledge, and to monitor carefully the effects of such taxes in those countries that are imposing them.

5.23 The Committee takes a similar view of tradeable permits on greenhouse gas emissions, such as those suggested by the TransAlta witness. In principle these represent assets that can be used as a market-driven incentive to industrial firms, electricity utilities, and other major emitters to reduce their emissions, and sell the unneeded portions of their permits. Again we believe that this option merits serious study, especially as a potential way of reducing the regional disparities in emission patterns that we have emphasized. The Committee regards it as axiomatic that any permit system should provide for a declining total level of emissions over time, consistent with the need to achieve substantial reductions from contemporary levels. The Committee notes that, in the Green Plan, the federal government anticipates the introduction of emissions trading as a means of reducing urban smog.<sup>15</sup> We think this will be a valuable and relevant pilot for the possible use of such permits in regard to greenhouse gas emission limitations.

5.24 More broadly, it seems evident to the Committee that the time is ripe for some new thinking, and especially some new Canadian thinking, on novel mechanisms to achieve the emission reduction targets that we seek. Some of these will be technical, others will involve taxation, regulation, incentives, and the like. There is much we can learn from other countries, and especially the innovations taking place in United States energy supply and demand management. But, as we have endeavoured to show, the Canadian situation is distinctive, and more specific attention to the Canadian situation seems to be needed.