Carbon Pricing and Pipelines: A Reply to David Suzuki

By Dennis McConaghy

I should first state that much of my professional career has been devoted to realizing some of the very pipelines that David Suzuki has now declared irrelevant in light of Canada's intention to enter into the Paris climate agreement. For that I make no apologies. In fact, I take significant pride in the economic contribution that hydrocarbon pipelines have made to Canada and North America over the past sixty plus years.

But Suzuki makes a point that requires vigorous examination: That the achievement of an agreement in Paris at the COP 21 meeting in 2015, and henceforth the drive by Canada and the world to limit climate change, should end discussion of growth in the hydrocarbon industry, and curtail development of pipelines in Canada.

The fundamental COP 21 Paris objective is set out in Article 2: "Holding the increase in the global average temperature to well below 2 °C above pre-industrial levels and to pursue efforts to limit the temperature increase to 1.5 °C above pre-industrial levels, recognizing that this would significantly reduce the risks and impacts of climate change."

How that may be accomplished is not prescribed by the Paris Agreement itself, let alone any requirement that "75 to 80 per cent of known fossil fuel deposits must be left in the ground." As a matter of law, the temperature target set out in the Agreement is an aspiration, not a legally binding commitment. But signing the agreement does commit Canada to report its progress over time in meeting the emission reductions it tabled in Paris, known as its INDC (Intended Nationally Determined Commitment).

Meeting its INDC will be extremely challenging for Canada. Unlike some other developed countries, Canada has relatively little coal in its energy mix. Instead, it is a significant producer and exporter of crude oil and natural gas. Energy exports make up roughly 50% of Canadian export revenues. Canada's INDC requires an emissions reduction of 200 megatonnes annually by 2030, from roughly 700 megatonnes today. Of that 700, roughly 250 megatonnes relate to hydrocarbon production-related emissions.

Mr. Suzuki's perspective is understandable. Growing the potential of the hydrocarbon sector by constructing more pipeline infrastructure would, on its face, run counter to meeting the Canadian INDC. But forecasts of the global energy future show that even if we want to meet the temperature targets in the Paris agreement, we should still expect significant world consumption of crude oil and natural gas. Is Canada any less entitled than other countries to compete for that economic opportunity?

If Canada is ever to achieve coherence in its policies for hydrocarbon development and carbon emissions, then it must come to terms with carbon pricing and carbon taxes in an intellectually honest and rigorous fashion.

This is where real non-partisan leadership should come from the federal government of Canada. What if Canada is able to impose a transparent carbon tax on its emissions? What if that price is consistent with what other developed economies are imposing on themselves—either explicitly or implicitly? Would Canada still not have the right to produce its hydrocarbons? If Canada cannot answer in the affirmative to that basic question, it will never be able to square its hydrocarbon potential with a credible carbon policy.

Canada should internalize the climate externality via a carbon tax, then allow the hydrocarbon industry to compete on price. As commodity prices and carbon prices find their market value, the most economically efficient mix of carbon emission reductions will emerge. This formulation does not require the immediate denial of all incremental hydrocarbon pipeline infrastructure or blocking development of Canada's hydrocarbon potential. If the major global economies have the will to impose carbon prices sufficient to block development of Canadian hydrocarbons—that is one potential future. But Canada should not be compelled to impose on itself de facto carbon prices that are significantly higher than other economies will accept.

Is Canada ready to say to the world that imposing credible carbon taxes on itself is an equivalent and legitimate compliance mechanism? If it is, it would be providing some real leadership on how the world deals with the climate risk. If it can't, then Suzuki's formulation may well be right, however economically punitive it may be.

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Dennis McConaghy is the former Executive Vice-President, Corporate Development at TransCanada. Previously, he was Executive Vice-President, Pipeline Strategy and Development. Mr. McConaghy joined TransCanada in 1998, and has held senior positions in Corporate Strategy & Development, Midstream/Divestments, and Business Development. He has more than 25 years' experience in oil and gas, beginning his career as a Research Associate with the Alberta Research Council. He has also worked for the Alberta Gas Trunkline and the Alberta Gas Ethylene Company.

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