

Presentation to the Transport and Communications Committee of the Senate of Canada

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Committee Agenda:

Study on the development of a strategy to facilitate the transport of crude oil to eastern Canadian refineries and to ports on the East and West coasts of Canada.

Introductory remarks:

I am a Professor of Economics at the University of Guelph where I specialize in the economics of environmental policy, including energy and climate change-related issues. I am also Research Chair in Energy, Ecology and Prosperity at the Frontier Centre for Public Policy.

In my remarks today I would like to make three simple points. First, it is an accident of nature that pipelines form a bottleneck in the channel connecting petroleum products to the market. But this does not justify using the pipeline regulatory process to create de facto environmental regulations that failed to win approval through the normal legislative channels. Second, the context for discussing the environmental aspects of pipelines development is an enormous reduction in vehicle-related air pollution that has occurred over the past few decades even as motor fuel consumption has risen steadily. Finally, time is not on the government's side on this issue. Economic trends in Canada and the rest of the world are not encouraging, and the longer this issue festers the more damage it will do to our economy and our national unity.

Turning to my first point. In most sectors of the economy, distribution of a product to retailers is handled by a competitive transport sector with many small players operating on many routes. Nobody would think of using road blockades or truck sabotage as a form of environmental policy. Aside from the inherent inefficiency, it would be futile since the products would still get to market by alternate means and alternate routes.

But motor fuels depend on a pipeline for at least part of the journey. The fact that the product delivery route narrows to a single channel at one point does not mean that blockading that channel is an efficient or sensible way of accomplishing environmental goals. It is merely an accidental result of the fact that the technology of pipelines creates what economists call a “Natural Monopoly.” This refers to any situation in which economies of scale exceed the size of the market, so eventually only one supplier will dominate. In such cases it makes sense to create a regulatory agency to oversee capacity development and pricing.

Environmental regulations are developed separately. They emerge through the ordinary democratic process of legislation and ultimately are subject to the approval of the electorate. Debates over the merits of these rules should take place through the exchange of arguments and the taking of votes. Allowing activists to exploit the natural monopoly of pipelines to impose an environmental agenda that failed to obtain support through the environmental policymaking process undermines the integrity of our rulemaking system.

In short, the regulatory oversight of pipelines should focus on those aspects that relate directly and specifically to the public interest in pipelines, namely safety, profitability and pricing. Environmental targets for air pollution emissions, including greenhouse gases, should continue to be dealt with through the environmental rulemaking system. People who are unhappy with the current mix of environmental regulations can make their case in the forums in which such regulations and rules are debated, rather than by blocking the development and operation of new pipelines.

My second point is that some of the opposition to the development of new pipelines appears to be based on the belief that petroleum-related air pollution in Canada is high and rising and needs to be reduced. But the data show that this view is simply untrue. Here are some salient facts about air emissions related to motor transport in Canada.

- From 1990 to 2014, motor fuel consumption in Canada rose from 2.5 to 3.5 million cubic meters per year, a 40 percent increase.¹
- Yet over the same interval, motor vehicle particulate emissions fell from 150 megatonnes annually to 60 megatonnes, a 60 percent reduction.²
- Over the same interval NO_x emissions from motor vehicles fell by nearly 50 percent and carbon monoxide emissions fell by 70 percent.

Declining contaminant concentration levels in Canadian cities prove the reality of this improvement. Environment Canada maintains detailed national archives at the National Air Pollution Monitoring System, or NAPS. I have graphed the entire NAPS record for every city in Canada at a website called YourEnvironment.ca. The record clearly shows that despite the large increase in vehicle usage, vehicle-related air pollution concentrations like carbon particulates, NO_x and carbon monoxide have dropped over the past few decades and are today at historically very low levels.

¹ Statcan CANSIM Table 134-0004

² http://www.ec.gc.ca/inrp-npri/donnees-data/ap/index.cfm?do=ap_query&lang=en

This is a result of the development of technologies like catalytic converters and more efficient engine designs that allow us to continue using reliable, low cost motor fuels while going farther and emitting fewer and fewer tailpipe emissions. Decoupling motor vehicle usage from urban air pollution is one of the great intellectual and engineering achievements of the postwar era. It represents a smart approach to sustainable development and has yielded enormous payoffs for Canada in the form of cleaner air and the many economic and employment benefits of inexpensive transportation and secure access to domestic energy sources.

By contrast, blockading pipeline resource development is neither a smart nor sustainable approach to pursuing environmental goals. The petroleum products will still get to market, likely by means that cost more and have even worse environmental implications.

The costs of such actions will not fall equally across the country, and this goes to my third and final point. Time is not on the government's side. The longer western Canada is made to wait for the opportunity to develop its resources and get the world price for them, the larger the costs of the foregone opportunities and the greater will be the resulting resentment, especially since Alberta is already experiencing so much economic stress due to the downturn in the oil sector.

Also, the western world is getting locked into an extended period of economic stagnation, with the added risk of possible triggers for a new financial crisis, such as the high level of non-performing debt in the Chinese banking system, the possible insolvency of Deutsche Bank and the likelihood of another bailout crisis in peripheral EU countries. A pipeline project connecting Alberta to a major coast would be a sensible and environmentally responsible development initiative at a time when such job-creating opportunities are sorely needed.

Canada's new government enjoys a very high level of popular support. But what is the point of having all that political capital if it is not used where it is needed? Completion of an inter-provincial pipeline would be a boost for national unity and economic development, and it would be entirely consistent with the smart, technology-driven approach to environmental management that we have successfully pursued for many decades.