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# CANADIAN INSTITUTE FOR CLIMATE CHOICES: *SINK OR SWIM* REPORT SINKS, RIDDLED WITH HOLES

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**Recently, the Canadian Institute for Climate Choices released its *Sink or Swim* report detailing Canada's economic prospects in the global low-carbon transition.[1] The report gives the impression that Canada is doomed if the government does not take drastic action to force shifts in our sources of economic growth and prosperity. While we were unable to critically assess and evaluate the mechanics of its methodologies in a timely manner, as data were not made readily available for many of its key analyses,[2] a quick survey of the report uncovers many erroneous assumptions, seriously undermining its overall conclusions.**

Questionable thinking is apparent from the start. The report states in its introduction that a green wave is coming, but not how, or even what constitutes a green wave. It then suggests that because of "significant shifts in demand, commodity prices, and the cost of emitting greenhouse gases," some sectors will face economic problems. Yet this is just a fact of life in a market economy. When certain investments stop being economically viable, capital will flow elsewhere. There is no need to force companies to invest differently, as the report argues. Market players will naturally reallocate resources as situations evolve in order to maximize potential return.

Turning to the data with readily available sources, the report contains a prediction of GDP losses due to climate change. These numbers, though, are for worldwide GDP losses, as confirmed by the original source,[3] and are not very relevant as justifications for Canadian policy prescriptions, since the costs would vary immensely from country to country. An island or coastal nation would not face the same costs as a landlocked one, for instance. Canada, by virtue of its geography, would be spared the worst, as research shows that the negative consequences of climate change increasingly affect small countries.[4]

The report notes that countries are increasing their ambitious targets for GHG emission reductions. It does not, however, consider that historically, governments such as Canada's[5] have failed to achieve their objectives. Pretending that they will succeed in hitting all their targets and objectives this time around is highly optimistic.

The report's stress testing analysis uses three scenarios with varying levels of $CO_2$ removal. It does not, however, define key terms in this analysis (i.e., "limited" or "generous" with regard to the carbon dioxide removal options) and does not state whether initiatives currently underway are taken into consideration. This analysis also does not consider that companies would actually remove emissions, but assumes they can only reduce them or stop production. It also assumes less feasible readiness for transition in high-carbon power sectors, stating that it will be difficult to compete with the declining costs of renewable energy and storage options over time. What about the declining costs of carbon capture, utilization, and storage technologies as these are scaled up and deployed?[6] This does not appear to have been considered.

In the end, again, if investors think that some sectors cannot or will not profit, they will adjust their investments accordingly. Rather than needing a transition readiness scenario imposed on them from above, investors should be free to decide if there is an opportunity; they will make the choice they think is best with their money.

The report states that the energy market is changing in favour of renewables, but we have also seen a rise in the prices of coal, oil, and gas over the past few months, the result of a global energy shortage.[7] Additionally, the assumption of oil prices falling to $25-$45 per barrel by 2050 is not supported by the data the report references, and other sources predict that oil prices in 2050 will be considerably higher.[8]

The report also champions electric vehicles and the transformation of the transportation sector. In one scenario, it predicts that 40% of global transportation energy demand in 2050 will be non-emitting, and 100% of passenger vehicle sales will be electric. There is no justification for these values. In addition, increased emission stringency targets will be imposed on vehicles as of 2022. There is no indication that the report has taken this into account. Finally, there is little consideration of the level or availability of consumer options in the report's historical assessment. It uses 2005 as a starting point, but relatively affordable electric vehicles were not available until at least 2010. In fact, their market share in Canada in 2012 was only 0.15% of vehicles.[9]

The fact that people are investing in "green" companies does not mean there is no profit to be made in oil and gas. It simply means that investors think the former have potential. Sectors that are more emission-intensive will become smaller if there is a "global carbon tax." There is no need to force businesses to reinvest in something else. While some provinces, like Alberta, are dependent on the resource sector for revenue, they would still need to find new sources of revenue or make budget cuts if resource development were shut down. The financial "risk" for the province does not disappear by shuttering its main economic sector; this just forces the worst-case scenario to happen, and abruptly too.

Outlining Canada's potential in the development of other sectors is all well and good, and investors will flock to them if there is real economic opportunity in doing so. But with just a quick review of some of the assumptions and statements scattered throughout the report, it is clear that it is riddled with holes which cause it to take on water, and rather than swim, it begins to sink. As many of its policy recommendations are built upon misleading or outright false premises, a fine-tooth comb should be taken to its methodologies, analysis, modelling, and results before seriously considering any of this report's conclusions.

## REFERENCES


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This report was prepared by **Olivier Rancourt**, Economist at the MEI, and **Krystle Wittevrongel**, Public Policy Analyst at the MEI. The MEI's **Environment Series** aims to explore the economic aspects of policies designed to protect the natural world in order to encourage the most cost-effective responses to our environmental challenges.

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