SS Canada

Off Course and Headed for Icebergs

Robert Lyman 1/22/24

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OFF COURSE AND HEADED FOR ICEBERGS

EXECUTIVE SUMMARY

Like an ocean liner approaching icebergs, the Canadian economy is in dangerous waters as it enters 2024.

Real gross domestic product (GDP) per person is barely growing and the OECD has projected Canada's long-term growth (i.e. to 2060 and beyond) in GDP per capita as the worst (the worst!) among the developed countries. Capital invested in the economy per worker has been falling, as are productivity and living standards.

The situation is made worse by the Trudeau government's fiscal, economic and environmental policies. The oil and gas industry, long the powerhouse of the resource sector, has cut its reinvestment of income in half and instead allocates more funds to buying back shares and increasing dividends. The manufacturing sectors are being hollowed out by ever-higher electricity prices in some provinces and by ever-more-stringent regulatory reviews that delay or impede new resource and infrastructure projects. The Trudeau government has proudly embraced the goal of reducing Canada's greenhouse gas emissions to zero by 2050, completely ignoring the enormous costs of and technological barriers to that goal, and the fact that attaining it would have little impact on global emissions driven by economic development trends in Asia.

As we enter 2024, we should ponder the long list of new environment-related measures that the federal government plans to undertake this year. The rate of the carbon tax (and its evil twin, the Output Based Pricing System imposed on industry) is scheduled to rise on April 1st to $80 per tonne of carbon dioxide equivalent. Environment and Climate Change Canada plans several more regulatory changes that will adversely affect business, homeowners and consumers. The federal government probably will pass legislation to protect "nature and biodiversity" that will further harm investment and development and require financial institutions to impose onerous "net-zero" planning and reporting requirements on the firms to which they lend.

No doubt there will be other bad news events arising from the "net-zero" mandates given to publicly owned electric utilities and provincial agencies that regulate electricity and natural gas utilities.

Well-funded environmental organizations may use their influence to promote ending the use of natural gas; subsidizing electric vehicles, heat pumps and wind and solar energy; impeding the certification of all hydrocarbons-related infrastructure; and supporting lawsuits that will convert anti-economy policies into legislative requirements. They are pursuing the anti-plastics agenda with almost religious intensity. The Canadian ship of state is in danger, and there are no safe harbours in sight.

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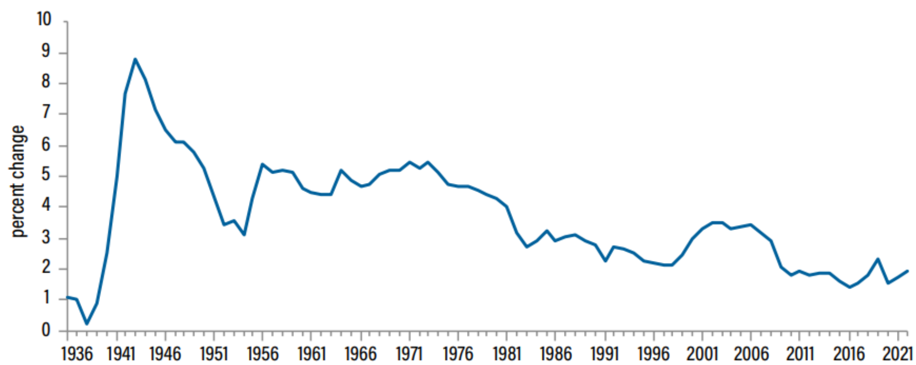
OFF COURSE AND HEADED FOR ICEBERGS

Many people who watched the 1997 romantic disaster movie know the story of the sinking of the Titanic luxury ocean liner in 1912. The story of the Titanic serves as a reminder that even the sturdiest of vessels and the people on them can meet their end if they ignore the icebergs in their path. The same, sadly, might be warned about the Canadian economy as it enters 2024.

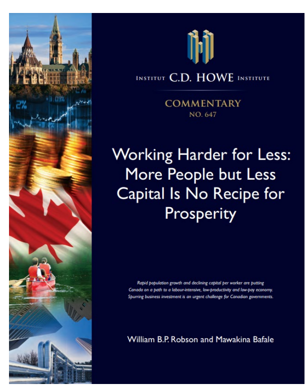
Figure 1: 10-Year Average Real GDP Growth, Canada, 1936–2021



Note: As Statistics Canada data begin in 1926, the figure begins in 1936, which shows average annual growth for the decade ending that year.
Sources: Statistics Canada, tables 36-10-0202-01 and 36-10-0369-01.

https://www.fraserinstitute.org/sites/default/files/what-is-behind-canadas-growth-crisis.pdf

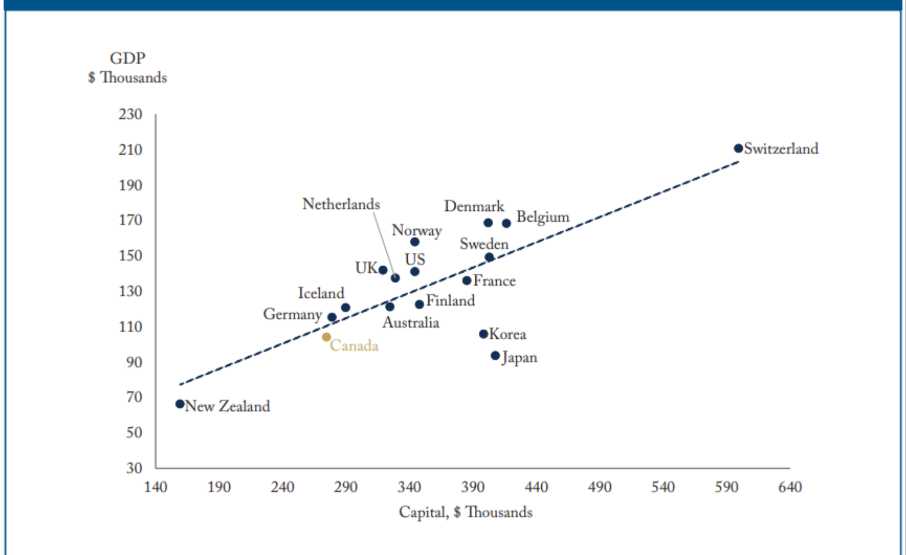
There is already plenty of evidence that the Canadian economy is in dangerous waters. Real gross domestic product (GDP) per person grew at a meager 0.3 percent annual rate from 2015 to 2023. Many forecasters, including the International Monetary Fund and the Bank of Canada, predict falling GDP per person well into 2024. The OECD has projected Canada's long-term growth (i.e. to 2060 and beyond) in GDP per capita as the worst (the worst!) among the developed countries. Business investment in Canada has been so weak since 2015 that capital invested in the economy per worker has been falling – part of what the C.D. Howe Institute calls "an ominous pattern of stagnating productivity and living standards".



https://www.cdhowe.org/sites/default/files/2023-11/Tools%20for%20Workers%20Commentary_647.pdf

The situation is made worse by the Trudeau government's fiscal, economic and environmental policies. In the government's 2023 Fall Economic Statement, it stayed the course in its practice of attempting to present bad expenditure policies as good news theatre. It failed even to acknowledge that productivity is stagnant and that the stock of business capital per worker, driven away by anti-business policies, is falling. Instead of fiscal responsibility, it offered constantly rising budget deficits out to the end of the planning period in 2028-29. **Debt servicing is projected to rise to just under $60 billion per year by fiscal 2028-2029, up by $10 billion over even the estimates in the Spring 2023 Budget**. This is under economic growth assumptions that may turn out to be optimistic; <u>the actual outcome could be far worse.</u> The Statement promised far more federal dollars for new housing, but it said nothing about the conflict between the government's professed concern about unaffordable housing and its 500,000 (and more) per year immigration policies.

Figure 2: GDP and Non-residential Capital Stock per Available Worker, Various Countries

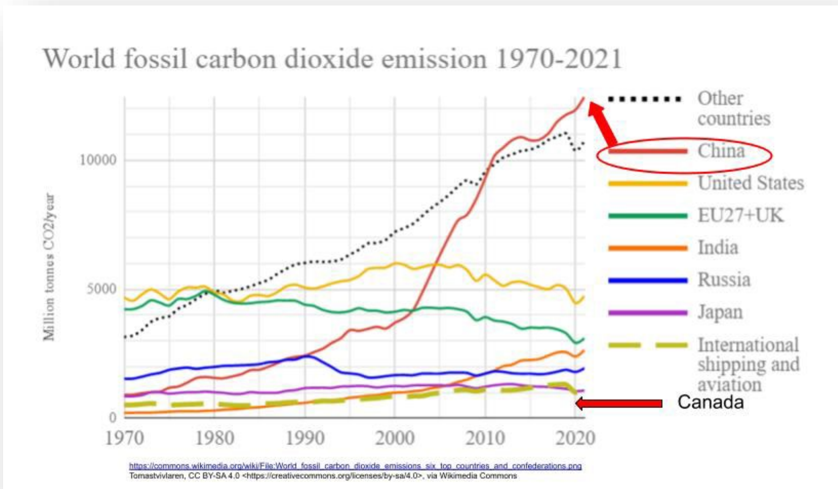


Note: The line is a fitted linear trend. We convert GDP and productive capital stocks from their national currencies to Canadian dollars using the OECD's 2017 purchasing power parity for gross capital formation.

Source: Authors' calculations based on OECD Economic Outlook Database No.113.

Source: https://www.cdhowe.org/sites/default/files/2023-11/Tools%20for%20Workers%20Commentary_647.pdf

The Trudeau government's environmental policies have been especially damaging to investment. The oil and gas industry, long the powerhouse of the resource sector, has cut its reinvestment of income in half and instead allocates more funds to buying back shares and increasing dividends. The manufacturing sectors are being hollowed out by ever-higher electricity prices in some provinces and by ever-more-stringent regulatory reviews that delay or impede new resource and infrastructure projects. The Trudeau government has proudly embraced the goal of reducing Canada's greenhouse gas emissions to zero by 2050, completely ignoring the enormous costs of and technological barriers to that goal, and the fact that attaining it would have little impact on global emissions driven by economic development trends in Asia.



As we enter 2024, we should ponder the long list of new environment-related measures that the federal government plans to undertake this year.

Some of them are continuations of the long-established policies. The rate of the carbon tax (and its evil twin, the Output Based Pricing System imposed on industry) is scheduled to rise on April 1st to $80 per tonne of carbon dioxide equivalent. This will increase the cost of almost all the coal, oil and natural gas consumed in Canada, and worsen the cost disadvantage that Canadian firms have vis-a-vis their competitors in the United States, Mexico and China.

Table 1

CARBON TAX RATES AND REVENUES TO CANADIAN GOVERNMENTS (2030)

Tax rate($/tonne)	Tax per Litre(cents)	Revenues ($billion/year)
20	2.24	11.0
30	4.48	16.6
50	12.0	27.6
80	19.2	44.1
100	22.4	55.2
200	44.8	111.0
300	72.0	165.6

The revenues to governments would be considerably higher if no exemptions were given to industry.

https://blog.friendsofscience.org/2018/09/29/the-alarming-scope-of-future-of-carbon-taxes-in-canada/

Compare the revenue projections from carbon taxes under this scenario with the most recent data on actual revenues received by the federal government from different taxes, as set out in Table 2.

Table 2

CANADIAN FEDERAL GOVERNMENT TAX REVENUES BY SOURCE – 2016 ($Billions)

Income Taxes	Corporate Taxes	Social Security	Consumption	Other
145	41	82	50	36

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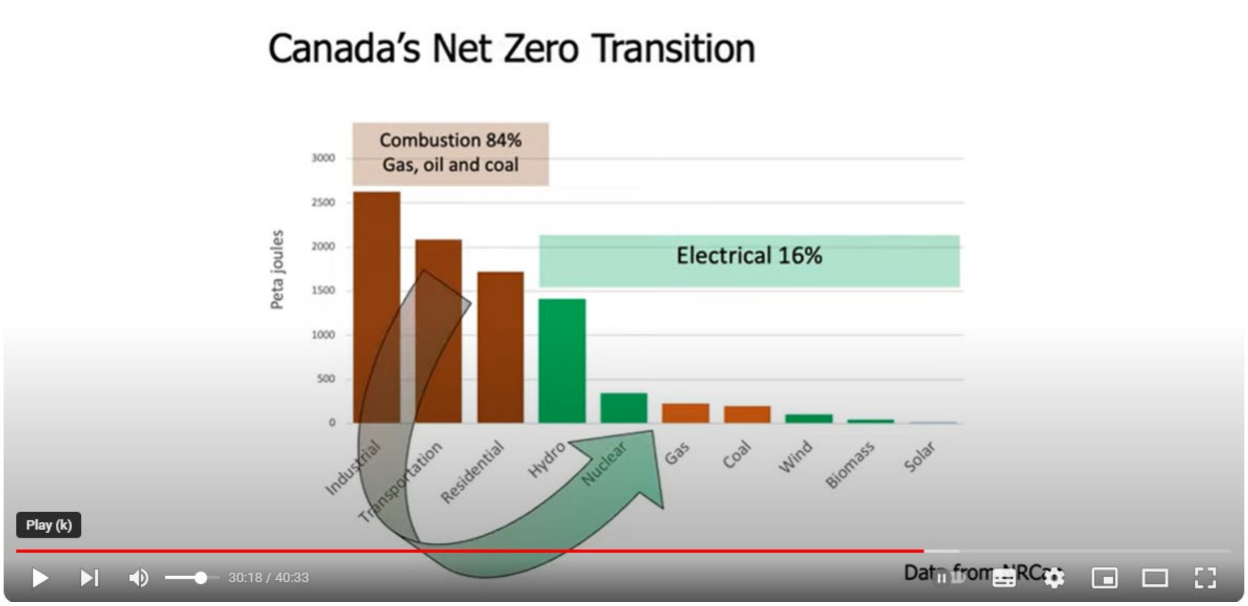
Environment and Climate Change Canada plans several more regulatory changes that will raise Canadians' energy costs and/or reduce their choices:

- Introducing a new cap and trade system intended to reduce emissions from the upstream oil and gas industry, thus in effect duplicating the existing carbon taxes that already apply in the sector;
- Introducing new regulations, the most stringent and the most expensive in the world, to reduce methane emissions from oil and gas by 75%;
- Increasing the severity of the existing regulations that reduce GHG emissions from electricity generation across Canada. The aim of these is to reduce to zero by 2035 the use of coal, oil and even natural gas for electricity generation, at enormous cost and likely adverse impact on reliability of supply;
- Increasing the severity of the existing regulations on the GHG emissions from light duty cars, trucks and SUVs to support the goal of forcing all consumers to purchase high cost all-electric vehicles by 2035;
- Increasing the severity of regulations governing GHG emissions from heavy duty trucks;
- Amending the schedule of the Canadian Environmental Protection Act to include carbon dioxide on the list of wastes subject to regulation (as though a gas that each of us exhales should now be subject to regulations, the contravening of which would be a criminal offence); and
- Amending the Federal Plastics Registry to require all producers to report annually on the quantity and types of plastic they place on the Canadian market, how it moves through the economy and how it is managed at end-of-life.

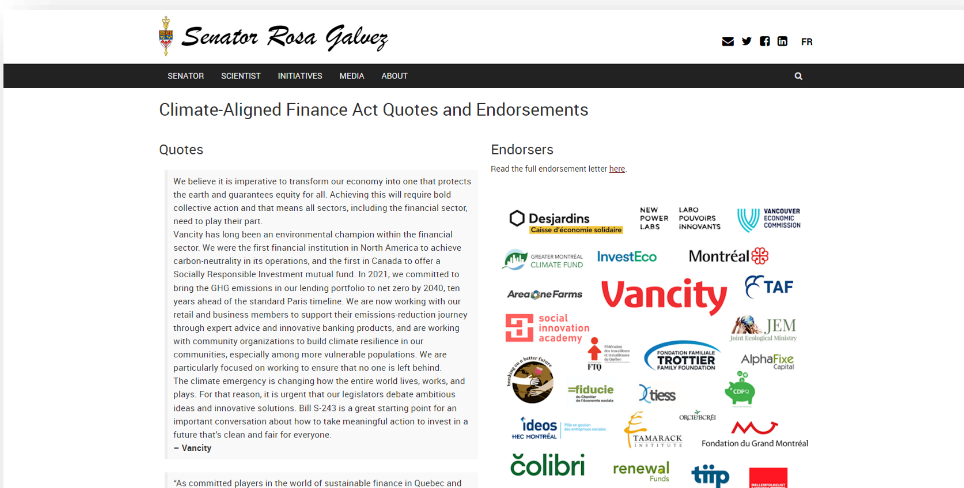


DR. IAN CLARK: A REALITY CHECK ON CLIMATE AND NET ZERO

https://youtu.be/_N_0kM1DFHs

https://www.nationalobserver.com/2023/12/12/news/nature-protection-targets-become-law

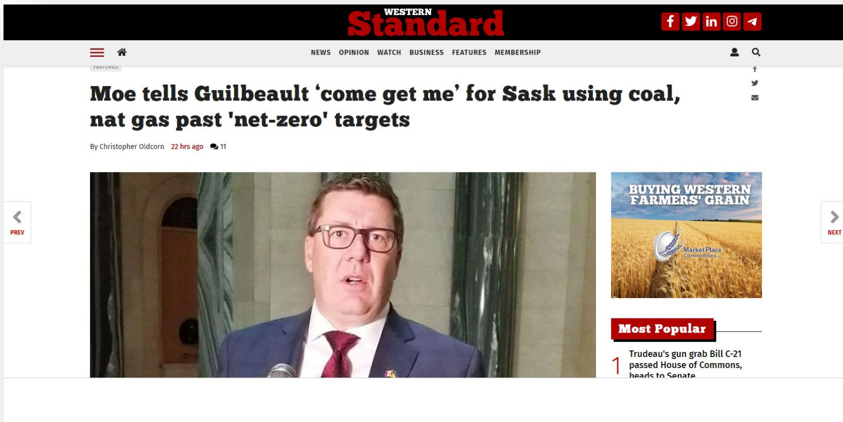
At the recent COP28 conference in Dubai, Environment Minister Steven Guilbeault announced that the government would this year introduce legislation to establish a "Biodiversity Accountability Framework". At this point, we know relatively little about what will be included in the legislation. The bill, we understand, will establish an accountability framework for the federal government in fulfilling its "nature and biodiversity commitments" under the Kunming-Montreal Global Diversity Framework (GBF). The plan sets out 23 "targets" employing the full range of policy, regulatory and incentive measures available to governments. Ecojustice, the radical environmental organization, is pressuring the government to ensure that the bill put forward "sets effective and enforceable legal standards for plans to halt and reverse biodiversity loss by 2030 and achieve full nature recovery by 2050". Such legislation has the potential to be as far-reaching and damaging to economic activity as the climate regulations.



https://rosagalvez.ca/en/initiatives/climate-aligned-finance/quotes-and-endorsements/

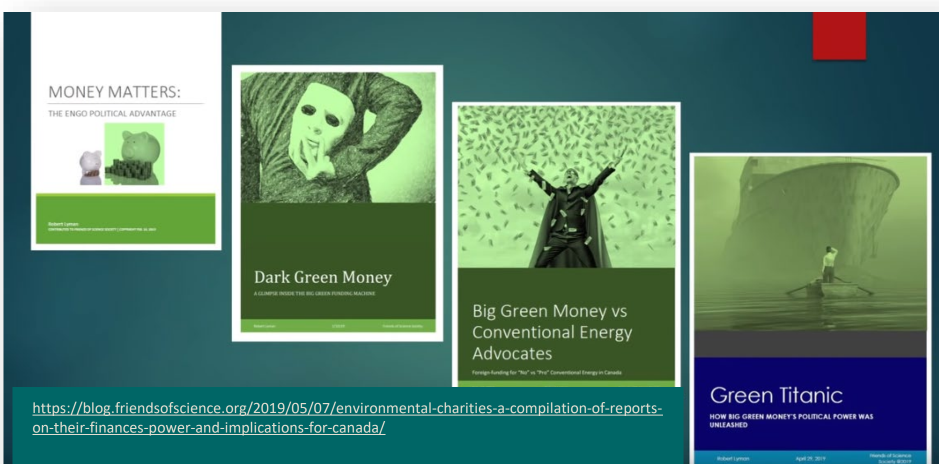
The Senate of Canada continues to work on proposed legislation (Bill S243) to make all federal financial institutions require the companies that they lend to or otherwise fund to set baseline requirements to reduce GHG emissions; develop oversight and capital adequacy requirements; require directors, officers and administrators to align with the climate net-zero commitments; develop action plans and set climate targets; and ensure that there is "climate expertise" on the boards of directors. The law would also prohibit the appointment of directors with "conflicts of interest", probably an oblique reference to any person who previously worked in a hydrocarbons-related firm. This shocking piece of legislation reportedly enjoys broad support in Parliament.

No doubt there will be other bad news events arising from the “net-zero” mandates given to publicly owned electric utilities and provincial agencies that regulate electricity and natural gas utilities.



https://www.westernstandard.news/news/moe-tells-guilbeault-come-get-me-for-sask-using-coal-nat-gas-past-net-zero/article_22218c1c-f665-11ed-ba4a-4faa992b713c.html

In other words, beyond the federal measures already planned, well-funded environmental organizations may use their influence to inflict much more damage on the Canadian economy in 2024. They are now heavily focused on climate-policy related causes like seeking to end the use of natural gas; promoting electric vehicles, heat pumps and wind and solar energy subsidies and mandates; impeding the certification of all hydrocarbons-related infrastructure; and supporting lawsuits that will convert anti-economy policies into legislative requirements. They are pursuing the anti-plastics agenda with almost religious intensity. They are also very active in lobbying all orders of government – federal, provincial, territorial and municipal.



If organizations concerned about Canada's economy and standard of living are to cope with this armada of environmentalist icebergs, they must focus and prioritize their efforts. The Canadian ship of state is in danger, and there are no safe harbours in sight.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ABOUT THE AUTHOR

Robert Lyman is an economist with 27 years' experience as an analyst, policy advisor and manager in the Canadian federal government, primarily in the areas of energy, transportation, and environmental policy. He was also a diplomat for 10 years. Subsequently he has worked as a private consultant conducting policy research and analysis on energy and transportation issues as a principal for Entrans Policy Research Group. He is a frequent contributor of articles and reports for Friends of Science, a Calgary-based independent organization concerned about climate change-related issues. He resides in Ottawa, Canada. Full bio.

ABOUT FRIENDS OF SCIENCE SOCIETY

Friends of Science Society is an independent group of earth, atmospheric and solar scientists, engineers, and citizens that is celebrating its 21st year of offering climate science insights. After a thorough review of a broad spectrum of literature on climate change, Friends of Science Society has concluded that the sun is the main driver of climate change, not carbon dioxide (CO2).

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