

Energy prices and consumer behaviour

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What's a consumer to do when oil prices go way up and then down?

The 2008 oil price shock has provided proof positive of the power of energy prices to provoke conservation. The election debate, on the other hand, demonstrates how hard it will be to ensure that consumers (and producers) will be getting the right price signal in coming years.

Consumer behaviour with respect to choice of car and mode of transport made a radical shift when oil prices were heading for \$150 (U.S.) a barrel. Analysts were astonished to discover last May that Canadians were driving about 800 kilometres less, on average, than they did in 2007. It seems that once they had to pay \$100 (Canadian) to fill the gas tank, consumers began to change gears. They are selling SUVs and buying fuel efficient cars, to the dismay of the Detroit Big Three. But that is only part of the story.

More people are walking or cycling to work or school. Others are moving to a home closer to their job or reorganizing their workweek so they don't have to commute every day.

Still others are selling their cars and taking out memberships in a car-sharing network – like AutoShare (Toronto), Communauto (Montreal and Quebec City) or the Co-operative Auto Network (Vancouver). Owning a car can cost up to \$12,000 a year, depending on its size, while car sharing fees vary from \$8 to \$12 an hour including gas, insurance and even snow tires.

For years, advocates for sustainability have puzzled about why so many Canadians were worried about greenhouse gas emissions but so few were taking concrete actions to change their pattern of energy use. Part of the problem, it seems, was that – until recently – energy prices, especially gasoline prices, did not give consumers the “kick in the pants” they needed to change their lifestyles.

But will the new consumer behaviour continue? With the world economy slowing down and credit conditions getting tighter every day, it is entirely possible that oil prices will be declining in the months ahead. Will that stop the trend toward conservation?

With all this evidence that the price mechanism works, governments should be looking for ways to keep prices at levels that create the incentive to reduce energy use. The challenge is to come up with a design that works and that is politically acceptable.

The B.C. experience with the carbon tax introduced in July shows that governments cannot be seen to be piling on fuel taxes when world oil prices are soaring. Ideally, the goal should be to raise taxes to lean against the downswings in the world price and then cut taxes when the world price is on the rise.

To do this, governments need to know what price level is sufficient to promote conservation and encourage new technologies – what the economists would call the long-term equilibrium price.

And finally, governments need to think through the wide disparities in impact of higher fuel prices. It all depends on where you live.

Rural Canadians are vulnerable because they must drive such long distances to shop, bank, see a doctor, or get to school or work.

The suburbs built since the 1970s also present a formidable challenge because population density is low, distances to work are long, and the street grids conspire to keep people in their cars.

Professor Zack Taylor of the University of Toronto and John van Nostrand of planningAlliance created 24

development scenarios for communities in the Greater Toronto Area. They came to the conclusion that lower density suburbs will be difficult to “retrofit” for sustainability.

In contrast, most older neighbourhoods have a natural advantage on energy-efficiency. Homes of modest size were built on small lots and schools and shops were located nearby. These older neighbourhoods, like Riverdale in Toronto, the Plateau in Montreal and Kitsilano in Vancouver, offer more scope for sustainable living. They are densely populated (but not high rise), walkable, and offer easy access to public transit.

Unfortunately, we can't all move to an old neighbourhood. Nor can we depend on the subsidies and voluntary codes governments have tried for the past 20 years. They have failed miserably.

The federal Conservatives have effectively (but inaccurately) undermined the Liberal Party's version of the carbon tax in this election campaign. But that is campaign rhetoric.

The hard fact is that pricing energy right is the one tool that can be certain to have an early and significant impact on energy use. It is a blunt instrument. So it has to be accompanied by well thought out solutions to help people in all parts of the country adapt their patterns of energy use.

It won't be long before the politicians will have to send their advisers back to the drawing board.