

Harmonizing Greenhouse Gas Emission Reduction Regulations in Canada

The Canadian Chamber of Commerce recognizes that climate change is a serious and complex global issue that requires effective short, medium and long-term strategies and actions. The Canadian Chamber also recognizes the opportunity to concurrently reduce air pollution as part of any initiatives.

The rapidly evolving climate change targets being developed separately by Canada's federal, provincial and territorial governments, however, pose a serious challenge to business certainty and compliance. Although all levels of government are addressing the same concerns, there are significant differences in approach and timelines. To be effective and efficient, the federal government, in concert with Canada's provinces and territories, should develop a coordinated and consistent approach to climate change and air pollution.

GHG Reduction Targets within Canada

The variety and inconsistency of existing and proposed greenhouse gas (GHG) reduction targets across Canada is clearly illustrated in the following table:

Jurisdiction	Type of GHG Reduction Target	GHG Reduction Target Level	Timeline
BC	Absolute	33% below 2007 level	by 2020
		80% below 2007 level	by 2050
Alberta	Absolute	Emissions growth stop and begin to decline	by 2020
		14% below 2005 level	by 2050
	Intensity	LFE emission intensity reduced by 12% from 2006 then further reduced by 2% per year	Start in 2007
Saskatchewan	Per person	22 tonnes per person lower than 2004 level (32% lower than current level)	by 2020
		80% lower than current level	by 2050
Manitoba	Absolute	6% below 1990 level	by 2012
Ontario	Absolute	6% below 1990 level	by 2014
		15% below 1990 level	by 2020
Quebec	Absolute	1.5% below 1990 level	by 2012
New Brunswick	Absolute	10% below 1990 level	by 2020
Nova Scotia	Absolute	10% below 1990 level	by 2020
PEI	Regional/absolute (New England Governors / Eastern Canadian Premiers Climate Change Action Plan)	10% below 1990 level in the region	by 2020
Newfoundland and Labrador	Regional/absolute (New England Governors / Eastern Canadian Premiers Climate Change Action Plan)	10% below 1990 level in the region	by 2020
Yukon	No Target	n/a	n/a
Northwest Territories	Public Sector	10% below 2001 level	by 2011
Nunavut	No Target	n/a	n/a
Government of Canada	Absolute	20% below 2006 level	by 2020
		65% below 2006 level	by 2050

	Intensity	LFE emission intensity reduced by 18% from 2003 levels then further reduced by 2% per year	Start in 2010
Canada's Kyoto Commitment	Absolute	6% below 1990 level	by 2012

The federal government and Alberta will be imposing fees for over-limit emissions volumes on large final emitters (LFE's); however, the application and methodologies for these are not consistent; the revenues are to be used to fund GHG reduction initiatives. British Columbia is implementing an escalating carbon tax on consumption of all hydrocarbons; implementation of concurrent income tax reductions is supposed to make the carbon tax revenue neutral. Quebec has implemented a carbon tax; the revenue is to be used to fund GHG reduction initiatives.

United States GHG Reduction Initiatives

American initiatives that already exist, or are under development, include:

- Development and leadership of the Asia – Pacific Partnership on Clean Development and Climate as a complement to the Kyoto Protocol, which the current US government has not ratified. (See International Initiatives, below.) It is generally expected, however, that the next administration will develop another, and different, GHG reduction plan.
- Several US states have entered into multi-state GHG reduction agreements, some of which involve sub-groups of Canadian provinces. Examples include the New England Governors / Eastern Canadian Premiers Climate Change Action Plan, the Western Climate Initiative, the Regional Greenhouse Gas Initiative, and the Mid-Western Greenhouse Gas Accord.
- Some US banks have stopped financing conventional coal fired power plants due to concerns about the financial risk exposure associated with GHG emissions reduction.
- California has legislated low GHG emission standards for all suppliers of energy to / within California – whether or not the suppliers are resident in California.
- Federal governments in the US and Canada are moving towards adoption of a reformed and very stringent attribute-based Corporate Average Fuel Economy system which establishes a 2020 fleet target of 35 miles per gallon. Also, California is proposing its own fuel consumption standards and zero-emission vehicle mandate that will result in significant fuel economy requirements.

International GHG Reduction Initiatives

International initiatives that are under development include:

- The Asia – Pacific Partnership on Clean Development and Climate, which involves Australia, Canada, China, India, Japan, Republic of Korea, and the United States. The partners have agreed to work together and with the private sector to meet goals for energy security, national air pollution reduction, and climate change in ways that promote sustainable economic growth and poverty reduction. The Partnership will focus on expanding investment and trade in cleaner energy technologies, goods and services in key market sectors.

- The United Nations Framework Convention on Climate Change in which United Nations member states are developing an international emissions agreement to become effective after 2012 (the end of the Kyoto Protocol period). To be effective, the new agreement needs to impose binding GHG emission limits on both developed and developing nations, including the BRIC countries (Brazil, Russia, India and China). These countries are critical participants to any effective international emissions reduction initiative, in that they already, or will soon, emit more GHG's than the United States and they all have rapidly growing emissions.

GHG Reduction Challenges

Significantly reducing GHG emissions involves substantial challenges:

- Much of the GHG emitting infrastructure was developed during a period of abundant, relatively low cost, hydrocarbon supplies. This infrastructure, which was not designed to minimize GHG emissions, will be difficult to upgrade and has a very long life. Examples include vehicles (life about 15 years), power plants (20-40 years), and buildings (>100 years).
- Dramatic reduction of GHG emissions, as proposed in many jurisdictions around the world, will require implementation of new technologies. Widespread development and application of these new technologies will take many years, and will progress through various stages – theory, research, laboratory proof, pilot (small scale) proof, demonstration (medium scale) proof, and commercial implementation.
- As population and economic activity increases (particularly in the BRIC countries), GHG emissions will also significantly increase, exacerbating the goal of achieving absolute global reductions.
- To date, GHG emission reduction proposals and technologies have largely focused on LFE's, passenger cars and light duty trucks. In order to achieve the overall targets, it will be necessary to reduce GHG emissions by smaller sources, such as individuals and small and medium enterprises.
- Global emissions reductions will only be achieved if individuals and consumers (especially in highly populated developed and developing countries) make different choices, and respond to incentives through market-based pricing mechanisms that incorporate emissions costs in consumer goods.
- Emission fees levied to incent capital improvement and new technology are not uniform across jurisdictions, which creates an uneven playing field and raises international competitiveness issues.
- Some jurisdictions are proposing to implement cap-and-trade programs. The initial allowances (the "caps") must be set consistently across the implementing jurisdictions, and not favour one jurisdiction over another. Trades must be limited to independently verifiable credits covering the amount and duration of the trades. Trades must not financially weaken credit buyers vs. sellers such that buyers are unable to implement GHG emission reduction strategies or meet mandated targets. The program should cover a large economic group with similar economic foundations, and emissions trading should not act so as to merely transfer economic activity or wealth from a low cap jurisdiction to a high cap jurisdiction. Such an approach is problematic as it is costly, complex and cumbersome to effectively administer, relies too heavily on the creation of an appropriately sized trading area, and is oriented on traditional supply-management principles that have proven economically distortive and ineffective mechanisms vis-à-vis agriculture.

GHG Emission Pricing Within Canada

The GHG emission pricing policy within Canada should meet the following broad criteria:

- Pending implementation of an equitable international GHG reduction agreement across appropriate trade jurisdictions, any policy should address export / competitiveness issues by using border adjustments (for both imports and exports) or revenue recycling (reinvestment in the industry) to put Canadian producers on a level playing field.
- Broadly apply to GHG emissions economy-wide (beyond LFEs).
- Be coordinated with any air pollution reduction strategy.
- Be simple and avoid tax cascading (i.e. imposing a tax on top of a tax).
- Be a coordinated, federal-provincial-territorial system, harmonized across the country, and avoid inter-jurisdictional wealth transfers.
- Be complemented by a strategy to advance currently high cost technologies that are key to the future transformation of the energy system.
- Include concepts to extend the policy beyond LFE's.
- Ensure that any money collected through fees be used to fund research, development and commercialization of emission reduction projects to enhance Canada's competitive position in emissions technologies.
- Take a "revenue neutral" approach so that any imposed carbon costs are offset by a reduction in taxes, or by direct investment in technologies or infrastructure to reduce future carbon emissions.

Summary

GHG emission reduction is a very complex issue. Policies and programs should, therefore, include and address the following common, critical elements:

- Cover a long time frame, with short, medium, and long term targets.
- Provide certainty and harmonization, so that businesses and consumers can plan effectively and cost-efficiently to achieve any mandated targets.
- Include objective, verifiable measurements that ensure progress is being made towards the determined targets.
- Provide incentives and funding for leading-edge emissions management and reduction research and development.
- Ensure that trade partners and competitors do not use emission performance and reduction mechanisms as new forms of non-tariff trade barriers.

Recommendations

That the federal government:

Work aggressively with the provincial and territorial governments to implement policies, programs, legislation and regulations that:

Ensure Equity & Effectiveness

1. Are harmonized so that individuals and businesses in all jurisdictions across Canada are treated fairly, can plan effectively, and have a clear and single set of consistent standards and/or targets for compliance right across Canada.

2. Ensure that any government programs to curb or reduce GHG emissions are revenue neutral.
3. Address GHG and air pollutant reductions concurrently, as many sources of GHGs also emit pollutants.
4. Require comprehensive reporting on the progress of greenhouse gas and air pollution reduction initiatives.

Capitalize On Competitive Market Opportunities

5. Communicate clearly, and with transparency, to the business community and individual Canadians the costs and benefits for implementing changes that demonstrably reduce GHG emissions.
6. Recognize that sufficient timelines are needed to develop and implement technologies that will act to reduce GHG emissions.
7. Encourage the development and implementation of technologies that reduce GHGs and make Canada internationally competitive in environmental and GHG technologies through the use of financial or tax incentives.
8. Dedicate fees collected for over-limit emissions volumes to research, development and commercialization initiatives in proportion to the industries that have paid.

Support Consistency and Collaboration within the International Community

9. Ensure consistency with reduction targets and compliance standards in both the industrialized and developing world, recognizing the small size of the Canadian economy, and the degree to which the economy is integrated with and dependent upon the American economy.
10. Develop the details of Canada's international position and strategy in consultation with key stakeholders.