

# **Canada's Bill C-30: The Clean Air Act**

Statement to the House of Commons Legislative  
Committee on Bill C-30

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Mr. Chairman,

Allow me to thank you and the other members of this committee for the opportunity to speak to you today on this critical issue. I will focus my comments on relevant international aspects, including lessons Canada might want to consider from the experience of others, particularly the U.S. and the European Union; how the development of a domestic climate change plan is intimately linked with ongoing discussions on a post-2012 climate change regime; and implications for Canada of the recently released report of the Intergovernmental Panel on Climate Change.

First of all, allow me to address the previous testimony provided by the representative of the European Commission and Vicki Arroyo of the Pew Centre. In addition, IISD facilitated two workshops last December in which we invited European and American experts to comment on two compliance elements of the Clean Air Act, namely emissions trading and a technology investment fund. The messages coming out are basically the same. I think the first message that resonates strongly is that in implementing any sort of regulatory framework, start with a relatively simple system that begins gently. This is easier said than done, since an effective framework in Canada needs to balance international developments with the unique circumstances of Canada as a major energy-exporting developed country.

There has been much discussion in Canada on two of the proposed compliance elements under the Clean Air Act. At the workshops in December, key messages on emissions trading and the Technology Investment Fund (TIF) included the following: They represent distinct approaches to climate policy. Trading relies on emissions limits or caps, while allowing the price to be determined by the market. Depending on its design, the TIF could fix the price, while allowing the quantity of near-term emissions reductions achieved to vary. Some participants prefer the certain environmental outcome provided by emissions trading; others would prefer a defined price.

There were generally two perspectives in regard to emissions trading and the TIF:

- 1) *Quantity certainty*: Some participants placed a high priority on a simple and economically efficient trading system that can link with other systems. They are concerned about mechanisms such as the TIF that could compromise the effectiveness of the trading system and make linkages with other systems more challenging
- 2) *Price certainty*: Some participants were concerned about the cost of compliance, particularly given the issue of capital stock turnover, and want a dedicated fund with a price cap as a more effective means of ensuring that action begins in one way or another.

A TIF will feed into the achievement of long-term commitments by stimulating innovation, but should be designed to minimize impacts on the effectiveness of the ET System. Both the TIF and emissions trading can be mechanisms for compliance, but they perform largely separate roles. The TIF provides the defined price and limit on costs sought by regulated emitters; the emissions trading system provides an incentive and a mechanism to create and trade emission reductions.

Despite potential conflicting priorities of these two compliance mechanisms, a system could be envisioned with both a TIF and ET. Many agreed there is need for some sort of ET mechanism whereby companies that over-comply with their target can sell credits to other obligated companies (in an open and transparent way and within a registry). There was also some support for another mechanism whereby companies that cannot meet their targets internally could contribute to a TIF in return for non-tradable, non-fungible compliance units. Companies that meet their target can sell excess credits to companies that cannot meet their targets; and companies that cannot meet their targets also have the option to purchase non-tradable TIF units.

What are the implications? As far as I am concerned, what we need to do, and urgently, is put in place a regulatory framework for our large industrial emitters that gives clear signals

that significant emissions reductions in the not-too-distant future will be required, but a system that also provides the necessary wherewithal to make that transition in a manner that is as smooth as possible.

Nor must we overlook the fact that we are not operating in a vacuum here, and the extent to which we develop a system that allows for linkages with our major trading partners, the more effective it will likely be. There is a keen interest in many of these countries to develop an effective global carbon market and Canada needs to seriously consider its role in such an equation. We just heard from the United States and the European Union, but we are also hearing the same sort of message from Australia—Prime Minister John Howard recently established a joint government-business Task Group on Emissions Trading whose terms of reference include advising “on the nature and design of a workable global emissions trading system in which Australia would be able to participate.” Why? Because economic model after economic model convincingly demonstrates that a global carbon trading mechanism will significantly reduce the costs of meeting our ultimate objective of delivering a safe climate system to future generations. As it was put to me yesterday, “in the case of climate change, just as emissions know no borders, neither do emission reductions.” Of course, we also need to focus on developing mechanisms and technologies here in Canada, but it is not an “either-or” scenario and, in fact, if properly designed, Canada could take advantage of the carbon market as a way of launching and commercializing relevant carbon reduction technologies.

But what of meeting Kyoto? Who knows at this point? Remember, we are talking about trying to forecast Canada’s emissions trajectory six years from now. And don’t lose sight of the many flexibility provisions in the Kyoto Protocol, beyond the so-called “market mechanisms.” In particular, I am referring to the compliance provisions under the Kyoto Protocol. Under it, the government of Canada has an opportunity to “borrow” from its future commitment period, at an interest rate, to meet its target of 2008–2012. Doing so credibly would mean we could still begin developing a regulatory framework that begins sensibly with a clear message that significant reductions would be required in the next commitment period, AND, crucially, a much more comprehensive plan that will address all relevant sectors of Canadian society.

This would include significant support, now, towards large infrastructure investments in areas such as carbon capture and storage, clean coal and a clean east-west transmission line across Canada; the rapid acceleration of incentives for alternative energy initiatives, including distributed generation (or co-gen) and combined heat and power; accelerated fuel efficiency standards in the transportation sector; and strong policy signals directed towards energy efficiency and conservation programs.

I am convinced that if we put these elements in place over the next year, we will: (a) be pleasantly surprised at the scale of reductions we actually will be able to achieve; and (b) demonstrate to the global community that we are a serious player in addressing climate change. In regards to this latter consideration, it is important that the Committee consider that this government made a series of commitments at the last Meeting of the Parties to the Kyoto Protocol in Nairobi, at a meeting of the Ad Hoc Working Group on Further Commitments for Annex 1 Parties under the Kyoto Protocol, which commits it to undertake and communicate an analysis of the mitigation potential of current and future policies and identify a possible range of emission reductions and the means available for achieving them. The sooner we have a comprehensive plan and analysis in place, the sooner we can play a meaningful role in these critical discussions regarding post-2012 commitments. As I understand it, we have a deadline of February 23 to provide initial submissions and it would be useful to know what the Canadian government is planning to provide in that respect.

I would also be curious to know the status of two other submissions for which Canada has missed deadlines. Under the Marrakech Accords, Canada, along with all other Annex B Parties to the Kyoto Protocol, committed to provide an Initial Report by January 1 of this year, that, in essence, demonstrates that Canada has the infrastructure in place to participate in the first commitment period, including the ability to measure and track our greenhouse gas emissions. This includes, among other elements, providing a complete inventory of our greenhouse gas emissions, including sources and sinks, a clarification of what will be counted under managed forests, and a description of our national registry. To my knowledge, Canada has yet to even develop any such registry.

Canada has also missed the deadline in submitting its Fourth National Communication, which provides an update on Canada's national circumstances and progress in reducing its greenhouse gas emissions. This was due January 1 of 2006, which means that the government is more than a year in arrears in meeting this commitment. These oversights, unintended or otherwise, point to the fact that for too long, and under a number of Prime Ministers, there has been a serious gap in federal policy-making between domestic and international considerations. I cannot emphasize the extent to which we are suffering, in terms of our international reputation and credibility, for it.

The very phrase "Kyoto" has taken on all sorts of connotations, most of which, unfortunately, have only worked to needlessly politicize the issue of climate change in Canada. In particular, all the attention on our specific targets has resulted in us losing sight of the fact that the Kyoto agreement just as critically established, and continues to establish, the international policy architecture for addressing climate change, from methodologies for how we count, verify and report our emissions, including biological sequestration activities, to developing work programs for adaptation, and establishing the rules for the operation of the many flexibility provisions in the agreement.

One final thought, Mr. Chairman, on the implications of the IPCC's report out of Paris a few weeks ago. In my view, the most critical conclusion coming out of that report was the indisputable link demonstrated between human activities and the global warming phenomenon. In response to that, the way forward means a carbon-constrained future over the 21<sup>st</sup> century. And this means that the Canadian economy must adjust to that reality. More to the point, I would submit that the time is ripe for a comprehensive, national dialogue on Canada's energy priorities and interests. All constituencies in Canada, whether at the federal, provincial or municipal level, appear committed to becoming clean energy leaders. What that actually means, and how we can make it happen for the sake of the environment and the economy, needs to be urgently addressed.

In closing, Mr. Chairman, allow me to simply repeat what I already stated before the Standing Committee on Environment and Sustainable Development last November. Ultimately, successfully addressing the grave and present threat of climate change means an

evolution in understanding what “national interests” truly signify—acting responsibly for the sake of the environment and our children. The latest polls clearly demonstrate that Canadians are ready and impatient to face the challenge; it is time for politicians of all stripes to demonstrate the same resolve in a constructive spirit.

Let us not let the issue of targets get in the way of getting started, in a real, productive and constructive way that benefits our global environment and works to truly position Canada as global clean energy leader.

Thank you, Mr. Chairman.