

Canada and Kyoto

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Outline

- ④ Canada's Climate Change Plan
- ④ Large Final Emitters (LFEs)
- ④ Offsets
- ④ Trade disputes ahead?

Canada's Climate Change Plan

BAU Forecast	810 Mt
- Kyoto Target	<u>570 Mt</u>
= Gap	240 Mt

Current programs	50 Mt
Targeted Measures	35 Mt
Ag/Forestry Sinks	30 Mt
Large Final Emitters	55 Mt
Government credit purchases	10 Mt
Step 3 (to be determined)	<u>60 Mt</u>
	240 Mt

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- ⦿ Federal building retrofits
- ⦿ Incentive for wind power
- ⦿ PCF investment

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- ⦿ Incentives (eg. Production subsidies)
- ⦿ Regulations (eg. Fuel efficiency standards)
- ⦿ Tax measures (eg. Excise tax exemption for ethanol in gas)

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- Existing agricultural practices (eg. No till or low till farming) expected to contribute 10 Mt
- Existing forest management practices (eg. Silviculture) expected to contribute 20 Mt

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Details Later

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Canada's CDM & JI office to purchase Kyoto-compliant credits on the international market

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- ⦿ New technology
- ⦿ Provincial / municipal actions
- ⦿ Challenge to citizens
- ⦿ Clean energy exports

Large Final Emitters (LFEs)

- ④ Sectors with:
 - ④ Average of 8000 tonnes Co₂e/Facility/Year, and
 - ④ Average of 20Kg Co₂e/\$1000 output/year
- ④ Approximately 600-700 LFEs in:
 - ④ Thermal electricity generation (coal, oil and gas)
 - ④ Oil and gas (upstream extraction, pipelines, utilities, refining)
 - ④ Mining (metal and non-metal)
 - ④ Chemicals (inorganics, organics, fertilizers)
 - ④ Pulp and paper
 - ④ Iron and steel
 - ④ Smelting and refining
 - ④ Cement and lime
 - ④ Glass

LFEs: Covenanting

- ④ Fed plan is to implement “covenant or backstop” rule
- ④ Backstop Legislation
 - ④ “one size fits all” command and control regulation
- ④ Covenant Option
 - ④ Agreement between LFE and Federal Government
 - ④ May take “special circumstances” into account
- ④ Either way, regulated on an emissions intensity basis

LFEs: Covenanting

- ④ Emissions intensity
 - ④ $x \text{ emissions} / \text{unit output} = \text{emissions intensity}$
 - ④ Target set on a sector by sector (or subsector by subsector) and process by process basis
 - ④ Emission intensity target will be applied at the company level on a common formula basis
 - ④ Free “permits” = target \times actual production
 - ④ At end of each compliance period LFE must surrender sufficient permits to cover actual emissions

LFEs: Covenanting

- ⦿ Compliance options for LFEs with a permit shortage:
 - ⦿ Reduce emissions internally
 - ⦿ Purchase excess permits from another LFE (domestic equivalent of IET or JI)
 - ⦿ Purchase domestic “offsets” (domestic equivalent of CDM)
 - ⦿ Purchase Kyoto-compliant international credits (IET, JI, CDM)

The Domestic Offset System

- ④ Offsets are Canadian project based emission reductions or removals (sinks)
- ④ Intended to result in a reduction in Canada's reportable GHG emissions
- ④ Examples
 - ④ Landfill gas recovery (methane destruction)
 - ④ Fuel switching
 - ④ Ag / Forestry / Geological sink

The Domestic Offset System

⑥ Project Eligibility

- ⑥ In Canada's national GHG inventory
- ⑥ Project start date (not yet determined)
- ⑥ Real (net of leakage)
- ⑥ Measurable
- ⑥ Verifiable
- ⑥ Surplus
 - ⑥ Not required by law
 - ⑥ Not the subject of a government subsidy
 - ⑥ Reduced emissions not within LFE emissions
- ⑥ Unique
- ⑥ Ownership

The Domestic Offset System

- ④ Review Process
 - ④ Project Document
 - ④ Validation
 - ④ Registration
 - ④ Monitoring
 - ④ Verification
 - ④ Issuance of Offsets
- ④ Crediting
 - ④ Only 2008-2012

The Future: Fiscal Policy

- ⑥ Assurances from federal government to date:
 - ⑥ \$15/tonne cap
 - ⑥ R&D Investment
 - ⑥ Oil & gas: 15% emissions intensity reduction cap from 2010
 - ⑥ Emissions intensity regulation
- ⑥ Risk transfer to Feds (ie. taxpayers)/other LFEs for:
 - ⑥ Compliance costs over \$15/tonne
 - ⑥ Lag before R&D investments provide return
 - ⑥ New entrants
 - ⑥ Increased production

The Future: Trade

- ⑥ Any risk transfer to Feds could constitute a subsidy to industry and ground a trade dispute
- ⑥ Some suggestion NAFTA may preclude Canada from excluding foreign offsets – unlikely because not “like goods”
- ⑥ Federal election June 28/04
- ⑥ Little success in covenanting negotiations to date
- ⑥ Some reports that actions underway not yielding expected reductions
- ⑥ Canadian policy is fluid

Questions?

Ron Ezekiel