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## Curbing Climate Change the Canadian Way

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Industry Spotlight

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From the increased global average air and ocean temperatures to the widespread melting of snow and ice to a noticeable rise in sea level, **global warming** is a stark reality. In fact, conclusive findings from a February 2007 report, "**Climate Change 2007: The Physical Science Basis**" from the United Nations Intergovernmental Panel on Climate Change (IPCC) has confirmed that global warming is happening at a rapid pace and that greenhouse gas (GHG) emissions generated by human activities are the main cause for the observed changes in the past 50 years.

In an effort to address global warming, the **Kyoto Protocol**, an international treaty designed to reduce greenhouse gas emissions worldwide was adopted in 1997 and took effect in February 2005. Over 170 countries have since ratified the agreement including Canada. But with the election of the Canadian Conservative government in 2006, Canada has reversed its position on its climate change policy.

### **New Climate Change Policy**

Prime Minister Stephen Harper announced at the **United Nations' Bali Climate Summit** in December 2007 that Canada would reject any new agreement post-Kyoto that does not include binding targets for all major emitters of greenhouse gases including the **United States, China and India**. According to Harper, it would be ineffective to have an international agreement without all these major emitters on board simultaneously because the greenhouse gases would continue to skyrocket globally.

Ironically, Canada's own annual GHG emissions has grown steadily since 1990 and are currently more than **25% higher** than they were in 1990 and **32% higher** than Canada's Kyoto Protocol target.<sup>1</sup> This has mainly been due to the continued expansion of Canada's production and exporting of oil & gas. And with the legally binding Kyoto Protocol target unlikely to be met by the 2012 deadline, the Canadian government has opted for a "**Made in Canada**" approach to combat climate change at home. According to the federal government, Canada will be in a better position to contribute to a global solution on climate change with a domestic **climate change action plan** that includes making the reduction of GHG emissions mandatory and enforceable for industry, and developing and deploying new clean technologies.<sup>2</sup>

Last April, the federal Conservatives made a commitment to Canadians to cut GHG emissions overall in Canada by **an absolute 20% by 2020**, and approximately **60-70% by 2050** below 2006 levels independent of any agreement on a post-2012 international framework.<sup>3</sup> In March 2008, they published the details of their "**Turning the Corner: Regulatory Framework for Industrial Greenhouse Gas Emissions**" which include mandatory green house gas emission reductions for various sectors including electricity, and oil & gas.<sup>4</sup> These targets, according to environmentalists, fall short of the post-Kyoto efforts that would be expected from a developed country like Canada. In fact, the plan sees Canada reaching its Kyoto Protocol target between **2020 and 2025**, instead of **2012** as laid out in the Kyoto international plan to curb climate change.

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<sup>1-3</sup> Environment Canada: "*Turning the Corner: Taking Action to Fight Climate Change*", Technical Briefings, March 14, 2008

<sup>4</sup> See Environment Canada's "*Turning the Corner: Regulatory Framework for Industrial Greenhouse Gas Emissions*" for a complete list of sectors, Section 2

### Intensity-based Targets

According to **Barbara Henderickson**, a securities partner at **McMillan Binch Mendelsohn LLP** and founder of their **Emissions Trading and Climate Change Group**, the federal government's GHG emissions regulatory framework has been largely influenced by the Alberta government's GHG emissions regulations that came into effect July 2007.

"If you look at both [the Alberta and federal] regimes, in most respects they are very similar. The biggest influence has been in the area of these intensity targets which are not hard targets but targets tied to economic growth."

Critics of **intensity-based targets** view this approach as **ineffective** as the targets are based on **units of production** that could **potentially rise** with increased production. While companies are obligated to reduce the amount of GHG emissions used to produce their individual products, they do not have to reduce emissions overall. For example, large polluters like oil sand operators can continue to grow and pollute and still not violate any of the government-imposed limitations.

### Comparing Funds

While both the Alberta and federal governments have funds which emitters can contribute to in order to meet part or all of their targets, the key differences are in the qualification and use of these funds. According to Barbara Henderickson, emitters in Alberta can meet **100%** of their target by contributing \$15 per tonne to a provincial fund while federal emitters can meet up to **only 70%** of their target by contributing \$15 per tonne to the federal fund. To ensure that immediate action is taken to help the environment, emitters can only use a federal fund credit if there is already a tonne of carbon taken out of the air.

"In the federal system, the federal government must actually take that money and invest it in projects that take carbon out of the air but in Alberta, companies can just write a cheque to the provincial government to meet their targets which actually does not result in any carbon being taken out of the air," says Barbara Henderickson.

However, this March, the federal government introduced a special fund to accommodate certain high emitting sectors<sup>5</sup> to take advantage of **carbon capture and storage technology**. This means that large polluters like oil sand operators can now meet their federal emission targets **100%** simply by investing in carbon capture and storage technology whereby carbon dioxide or exhaust gas emissions are extracted during production, captured and then injected underground into geological formations for storage.

While the federal fund will eventually be **phased out by 2018**, the Alberta fund will be applied indefinitely or at least until Alberta decides to amend its regulations. "Starting in 2010, companies can meet up to 70% of their federal emission targets through contributions to this fund for \$15 per tonne. After that, the use of the fund goes down and the price of carbon goes up, so eventually the fund is phased out by 2018 because the price of carbon will be more than \$15 due to the price increase attached to [Canada's] gross domestic product (GDP). In Alberta, it would be different because companies can pay \$15 per tonne to meet emission targets 100% indefinitely," explains Barbara.

### A Fractured Regulatory System

Similar to the Canadian securities regulatory system, companies that conduct business in more than one province must deal with a **fractured GHG emissions regulatory system**. "From an environmental point of view it does not make any sense because you are talking about the air and a global pollutant," says Barbara. "From a business point of view, it doesn't make any sense either because businesses really don't want a multiplicity of regulatory regimes. What happens in a lot of cases is if companies have businesses across provinces, they will just comply with the strictest regulations in all their operations because it is too much trouble otherwise."

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<sup>5</sup> See Environment Canada's *"Turning the Corner: Regulatory Framework for Industrial Greenhouse Gas Emissions"* for a complete list of sectors, Section 5.1.3.

### Other Compliance Options

While the federal fund will likely be a popular choice with emitters, other compliance options available include **abatement**, **offset credits** and **certified emission reduction credits (CERs)**. According to Barbara Henderickson, abatement would require companies to overhaul the mechanics and technology of their business/facility to actually reduce carbon emissions to generate fund credits for their business. For companies who generate **excessive credits**, they have the option to sell these fund credits to other emitters who can use them for compliance.

But with **offset credits**, the credits are generated by businesses that are **not subject to** GHG regulations. They can generate offset credits by developing **environmental projects** like landfills, pillage and forestry to sell to emitters to meet their targets. However, Barbara warns that “companies [who decide to exercise this option] need to make sure that whoever is selling an offset is really an offset as there is a due diligence process involved much like buying shares in a company.”

The federal government has also allowed Canadian emitters to purchase international credits under the **Kyoto Clean Development Mechanism** called **CERs (Certified Emission Reduction Credits)** that can be used to meet up to **10%** of their emissions reduction target. But no matter what combination of federal compliance options emitters choose, it will definitely be driven by the price of the offset credits and CERs relative to the \$15 per tonne set by the federal fund and its availability up to 2018.

### Monitoring, Reporting and Penalties

Since industries in Canada are currently required to monitor and report emissions under the **Canadian Environmental Protection Act (CEPA)** since 2006, emissions reduction monitoring and reporting will also likely be a **self-reporting** one. According to Barbara Henderickson, companies in violation of federal emissions targets are subject to “the penalties under the *Canadian Environmental Protection Act (CEPA)* because *CEPA* is the criminal legislation in Canada. There are **finances and jail terms** but you don’t really know what the penalty will be. What companies will get, will actually be determined by a court of law for non-compliance.” In comparison, she references Alberta’s **\$200 per tonne penalty** “if you don’t meet your targets in Alberta, companies are slapped with an automatic \$200 per tonne penalty. Some would argue that this is a better approach than a *CEPA* approach because it at least establishes a price per tonne.”

Although the government’s “**Made in Canada**” plan includes mandatory fuel efficiency standards for cars and trucks, and energy efficiency standards for household appliances, it primarily takes aim at major industry to reduce greenhouse gas emissions. Industry accounts for nearly **50%** of Canada’s total GHG emissions and according to a government news release, Canada’s industrial sector will be responsible for **40%** or **60-megatonnes** of Canada’s total **150-megatonnes** GHGs reduction target by the year 2020.<sup>6</sup> By implementing tough federal regulations on high emitting industries to reduce greenhouse gas emissions and developing and deploying new clean technologies, the Canadian government believes that this will **drive the change necessary** for moving Canada to a **low-emission economy**. Whether this climate change policy is enough to slow global warming remains to be seen but one thing is for certain, Canada needs to take a proactive approach to reducing greenhouse gases to help the environment today, so we and future generations can have a greener tomorrow.

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<sup>6</sup> Government of Canada, News Release: “*Canada’s New Government Announces Targets to Tackle Climate Change and Reduce Air Pollution*”, April 26, 2007.

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Eleanor Kwan, CSP, is the CEO and Founder of **ShapeYourVision®**. Her company helps companies and individuals optimize their sales performance through strategy consulting, custom sales training and coaching. For more information, visit [www.ShapeYourVision.com](http://www.ShapeYourVision.com).