



## **National Round Table on the Environment and the Economy Advice to the Prime Minister in Advance of COP 11**

### **1. Canadian Perspectives on Dangerous Levels of Climate Change**

#### **Recommendations**

*The NRTEE recommends that:*

1. The Prime Minister immediately assume direct responsibility for the climate change file to signal the urgency of the challenge and to guide decisive and coordinated action by the Government of Canada.
2. A well-resourced team operating out of the Prime Minister's Office and Privy Council Office be responsible for the central management of the climate change file.
3. The Prime Minister speak directly to Canadians to make a compelling and urgent case for action in response to the likely impacts of climate change on the country's economy, ecology and quality of life.
4. The Prime Minister lead implementation of a Canadian sustainable energy strategy to turn Canada into one of the world's most efficient users, producers and exporters of a full range of energy products and energy technologies.
5. The Prime Minister launch the sustainable energy strategy by means of a First Ministers' Meeting on Energy and Climate Change.
6. The Prime Minister lead a national effort to identify and implement concrete measures for adapting to the impacts of climate change in Canada, both current impacts and those predicted over the next generation.
7. Canadian governments cooperate to strengthen the research and monitoring capacity needed to better understand the impacts of climate change on Canada's economy, ecosystems and society.

#### **Rationale**

*The NRTEE believes that:*

***As a major producer and exporter of energy, Canada has a national interest in climate change that is unique among the highly industrialized countries.***

Canada's domestic and international policy response to climate change needs to be firmly rooted in a clear assessment of its national interest. Only in this way will Canada be in a position to effectively mitigate and adapt to climate change, while pursuing significant opportunities that may be ahead.

The following special features of Canada's national interest are directly relevant to the question of climate change:

- As a major consumer, producer and exporter of energy, Canada is unique among the highly industrialized countries and the signatories to Kyoto. In essence, Canada sees the climate change challenge from both the energy-producing and energy-consuming perspectives.
- Canada is likely to experience greater impacts than any other industrialized nation, given its northern continental geography and resource-based economy.
- Canada is a technologically sophisticated, educated and affluent nation that is able to mitigate its contribution to climate change, adapt to the impacts to which it is subject, and take advantage of the real economic opportunities that will arise from a strategic response.

***Climate change impacts are already a real threat to Canada's national interest, particularly in the North.***

There is substantial evidence that continuing increases in atmospheric concentrations of greenhouse gases (GHGs), resulting from human activity, have already affected the global climate system. As the Intergovernmental Panel on Climate Change noted: "an increasing body of observations gives a collective picture of a warming world."<sup>1</sup>

What do such changes mean for Canadians?

We believe that the current and projected impacts of climate change constitute a significant threat to Canada's national interest. Without deliberate global action to address GHG emissions, an accelerating rate of climate change will result in impacts that will threaten the sustainability of Canada's economy and environment and the high quality of life that Canadians enjoy.

***All Canadians will be touched by climate change impacts.***

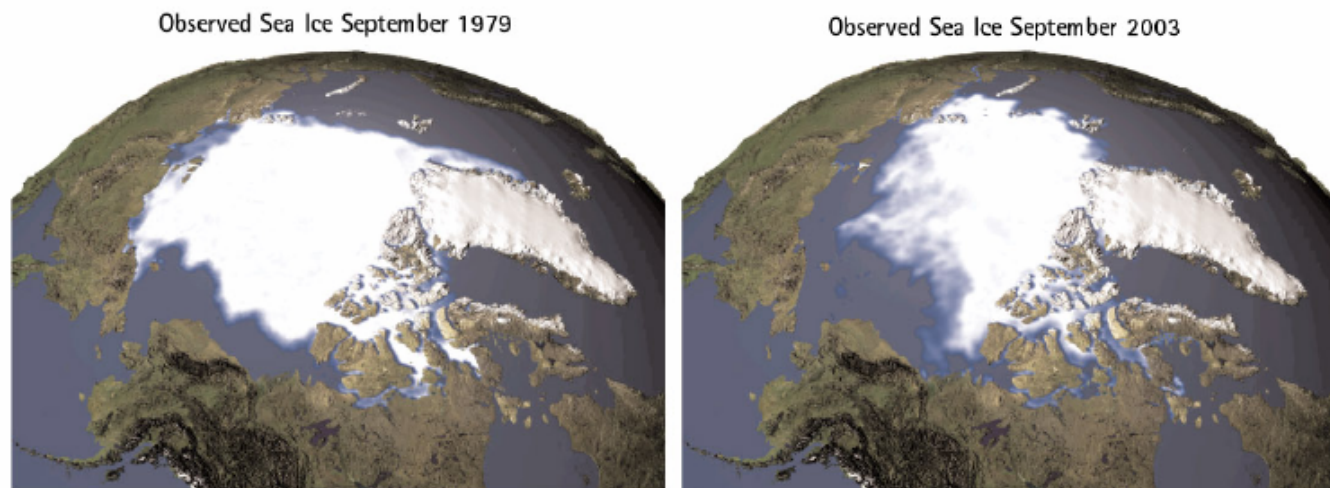
While the impacts of climate change at the regional and sectoral levels have not been accurately modelled, we believe that climate change is likely to adversely affect the stability and productivity of Canada's water and coastal systems, its food production system, and its forestry and fishing industries, among others. These impacts, in turn, will pose new risks to human health, critical infrastructure, social stability and security.

***The Arctic***

In Canada's Arctic, important impacts will include a rapid and pronounced reduction in sea ice (see illustration), leading to increased shipping and sovereignty challenges. Thawing permafrost could result in disruptions to transportation, buildings and other infrastructure. Reduced quality of drinking water and food could lead to human health impacts. A broader concern is the strong possibility that the indigenous cultures and economies of the North could disintegrate, due to the cumulative impacts of climate change in concert with other factors.

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<sup>1</sup> Intergovernmental Panel on Climate Change, *Climate Change 2001: Synthesis Report – Summary for Policy Makers* (2001), p.4. Available at <http://www.ipcc.ch/pub/un/syrenng/spm.pdf>.



Climate change impacts in the Arctic are also important from a global perspective, since there is the potential for:

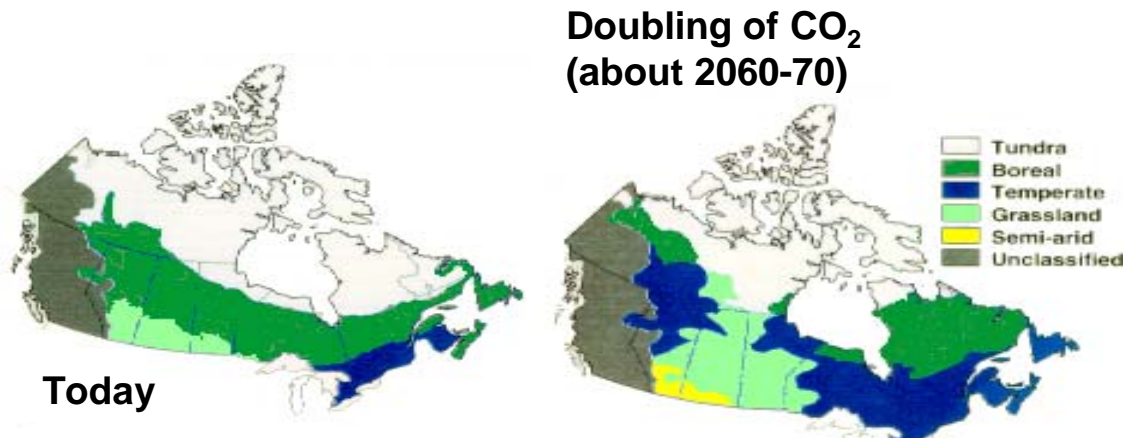
- increasingly strong positive feedbacks to global warming – due to increased exposure of (heat absorbing) land and ocean surfaces previously covered in snow and ice, increased natural emissions of methane and carbon dioxide from warming soils, and possibly (though less certainly) very large releases from the vast amounts of frozen gas hydrates; and
- increases in glacial melt and river runoff – which would add significantly more freshwater to the ocean, raising global sea levels and potentially slowing or stopping the ocean circulation that currently warms Europe by as much as 8°C.

#### *Water and the Hydrological Cycle*

Several regions of Canada are already facing water stresses, and these are likely to increase as the result of projected climate change. Water levels could fall in the Great Lakes and in many rivers and streams, creating economic and environmental impacts. Agriculture, industry, oil sands development, communities and hydroelectric generation could find themselves competing for the reduced water flows. Where snowmelt is currently an important part of the hydrological regime (such as in Alberta), seasonal shifts in runoff are likely, potentially reducing summer flow. Possible changes in the frequency, intensity and/or duration of heavy precipitation events may require significant investments in land use planning and infrastructure to avoid damage arising from flooding, landslides, sewage overflows and releases of contaminants to natural water bodies.

#### *Key Ecosystems and Related Natural Resource Sectors*

The forestry sector has always had to manage for climate variability. However, the magnitude of the climate changes likely to face the sector over the coming decades may be unprecedented within the history of the industry. As the map shows, the area favourable for the boreal forest – which sustains an industry responsible for about half of Canada’s annual wood harvest – shifts northward by several hundred kilometres in a scenario where atmospheric levels of carbon dioxide increase to about 550 parts per million. Over the next century, the existing boreal forest throughout the Prairies and Northern Ontario could come under severe stress and would likely experience significant dieback. Compounding the problem would be the increases in insect, disease and fire-related losses expected with climate change.



***For some Canadians, the threshold of dangerous climate change has already been crossed.***

One of the challenges in trying to define a dangerous level of climate change is that different regions, sectors and societal interests will have differing thresholds.

Many people living in the Arctic – the Inuit, for example – would argue that their region is already experiencing a degree of climate change that is negatively affecting their traditional ways of life. By contrast, it might be argued that much of Canada’s industrial economy has so far experienced few direct impacts from climate change and that, in some cases, a small amount of climate change could actually bring certain benefits, such as a longer growing season. Yet the risk of overwhelmingly negative impacts increases along with the amount and rate of global warming.

While science can inform the climate change debate, it cannot answer the question of what is dangerous. Two key policy questions emerge from the challenge of defining dangerous climate change:

- How should Canada best adapt to climate change in the near term and in the future so as to protect and, where possible, enhance its national interest?
- What is Canada’s national interest with regard to global mitigation?

***Both adaptation and mitigation policies are essential to protecting Canada’s national interest.***

Too often in the past, adaptation and mitigation policies have been viewed as mutually exclusive approaches to dealing with climate change. We believe that such a view is unhelpful, and that Canada must significantly increase its efforts in both areas. There is strong justification for significantly strengthening Canada’s adaptation response. At the same time, serious global mitigation efforts are necessary to avoid the most catastrophic of climate change impacts – to prevent climate change from outpacing the ability to adapt.

There are also important linkages between mitigation and adaptation policies: enhancing mitigation in the near term will lessen the need for adaptation in the future. The opposite is also true: postponing mitigation will only heighten the need for more far-reaching adaptation measures in the future.

***Canada must increase its efforts to adapt to current and predicted impacts of climate change, although it is not currently well prepared to do so.***

Even if all GHG emissions were somehow halted overnight, the complex mechanics of the global climate system mean that changes in the earth's climate would continue for decades to come. If there is still uncertainty about where the impacts will be and their exact magnitude, there is at the same time growing consensus that pronounced changes are inevitable.

The pace of climate change over the next few decades will likely produce climate change impacts that go beyond anything Canadians have experienced in the realm of natural climate variability. Given uncertainties about how climate change will manifest itself in and impact upon specific regions, sectors and ecosystems, Canada will need to develop a much better understanding of the limits of its present adaptive capacity.

In Canada, as elsewhere, the policy debate on adaptation has not advanced far – either with respect to addressing the inevitable impacts of climate change over the next generation or to seizing the opportunities that might flow from a strategic Canadian response.

We recommend that efforts to identify Canada's vulnerabilities and enhance its adaptive capacity in relation to climate change be increased immediately. While the federal government has begun a comprehensive assessment of existing research on Canada's vulnerability to climate change, much work remains to be done to design and deliver adaptive measures that will ensure that Canada's national interests are protected and, where possible, advanced. This work will require the engagement of not only the scientific and scholarly communities but also local and regional experts and stakeholders, who best understand their adaptive capacity and the full spectrum of stresses they face. The NRTEE membership also feels strongly that there is an urgent need for the private sector and all levels of government to integrate these issues into their long-term strategic planning processes.

One promising model for Canada with regard to the development and delivery of climate change adaptation policy is the United Kingdom's Climate Impacts Programme (UKCIP). UKCIP is an arm's-length, public-private organization that helps local, regional and central government agencies, the private sector and other organizations to access the best scientific information, thereby stimulating dialogue about potential actions to adapt to climate change or reduce vulnerability.

Finally, with respect to adaptation, we believe there is a special need to open a dialogue on North American adaptation with the United States and Mexico. This is discussed in Section 2, below.

***Canada has a substantial national interest in seeing a strong global response to climate change.***

Canada's mitigation measures on their own, however successful, cannot make a significant impact at the global level, given that the country is the source of only 2 to 3 percent of global GHG emissions. At the same time, Canada is already experiencing climate change impacts in some regions, impacts that may have exceeded the dangerous threshold. Therefore, Canada's vulnerability is such that working to engage other countries in significantly reducing GHG emissions must be a priority.

Recently,<sup>2</sup> the European Union introduced the target of preventing the global average temperature from exceeding the pre-industrial average temperature by more than 2°C. Achieving this target would likely require the long-term stabilization of atmospheric GHG concentrations at 450 parts per million or lower less.<sup>3</sup> Some studies have suggested that limiting warming to this range might avoid the most severe impacts on a global scale. Anything above a 2°C increase, then, represents the EU's interpretation of dangerous climate change.

For Canada, a 2°C increase in global average temperature could translate into significantly more pronounced warming, and associated climate change and impacts, depending on the region. This is particularly the case in the Far North and the continental interior.<sup>4</sup> This level of increase would almost certainly result in what many Canadians consider to be dangerous levels of climate change. It is therefore in Canada's national interest to engage other countries in significantly reducing GHG emissions. However, we do not believe that using a 2°C warming limit as a global target will secure significant international action on GHG reductions. Instead of offering an alternative target at this time, we recommend that Canada support all international efforts to reduce GHG emissions on a per capita and absolute basis.

Supporting international GHG reduction efforts means that Canada must do more than encourage others: it must increase existing efforts to reduce its own GHG emissions. Canada's domestic GHG reduction performance must improve enough to (a) show other countries that it is serious about significant GHG mitigation and (b) induce countries not party to the Kyoto process to join the global response.

Canada must learn more about its vulnerability to climate change, particularly in light of possible further international commitments after 2012. It is not within the scope of this advisory memo to debate the details or merits of different approaches to a post-2012 climate change mitigation agreement. However, we strongly believe that, for Canada to take an informed position on such an agreement, the government must better understand its potential effects on Canada's national interest by creating a spectrum of future warming scenarios.

We propose to coordinate such a study, which would examine what different warming scenarios (e.g., increases in global average temperature of 2°C, 3°C and even 4°C) would mean for Canada in terms of climate change impacts and vulnerabilities. This study would highlight the possible

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<sup>2</sup> The EU heads of state formally agreed to the 2°C limit at the EU Council in March 2005; however, the idea that the EU should adopt this limit originated in 1996.

<sup>3</sup> Current atmospheric GHG concentrations are close to 400 parts per million (ppm), with business-as-usual scenarios predicted to lead to the 450 ppm level by around 2030 (although there is much uncertainty associated with this estimate).

<sup>4</sup> A middle range estimate would show that a 2°C rise in average global temperature would likely lead to a 3–5°C rise in annual mean temperature for the central interior and North of Canada. Winter temperatures in the North could warm by 4–7°C, if not more.

risks and benefits for various regions and sectors of the country. Such a study could also act as a useful tool for promoting Canadians' understanding of the potential effects of climate change and of the various adaptation and mitigation measures in which they could engage.

***Governance on climate change has emerged as a critical issue.***

Governance on climate change – leadership, capacity, accountability, coordination and engagement – has emerged as a critical issue in this initial phase of deliberation by the NRTEE members. We have serious concerns about the capacity of current climate change governance approaches at the federal and provincial/territorial levels to deal with the challenge of climate change. We are also concerned about the lack of interest in effectively engaging leaders in business, the scientific community and civil society. In particular, we are concerned about the jurisdictional and competing agendas that we believe have characterized Canada's response on climate change to date, and about the perceived lack of capacity within the traditional "centre" of government (the Prime Minister's Office and the Privy Council Office) to adequately initiate and coordinate Canadian strategic policy responses to climate change.

We believe that there is an urgent need for strengthened central governance on the climate change file in Canada. Only a coordinated approach that is led from the centre, with the necessary resources and under the clear leadership of the Prime Minister, can create a shared response that will truly engage Canadians from all regions and all walks of life.

Leadership and governance on climate change is an issue that the NRTEE intends to study in more depth, through commissioned research on environmental governance and through more extensive dialogue among the members. We expect to be able to provide the Prime Minister with an interim advisory report on this question by early 2006.

***A Canadian sustainable energy strategy could create opportunities for Canada's economy.***

We believe that a critical challenge for the Prime Minister and other leaders in Canada is to recast the challenge of climate change. Climate change can no longer be seen as strictly an environmental issue. Rather, it must be viewed as an issue that is integrally linked to the foundations of the Canadian way of life – jobs, economic competitiveness, human health, and social and cultural values. From this perspective, there are significant opportunities to be realized, as well as risks to be addressed.

We believe that the development and implementation of a Canadian sustainable energy strategy, led by the Prime Minister, could be a highly effective means of responding to the current and emerging threats and realizing the opportunities presented by climate change.

Building on the initiatives contained in Project Green but going beyond its current scope, the strategy must involve all jurisdictions – as well as community, business and civil society leaders – in thoroughly examining not only the long-term linkages between energy and climate change but also how to create economic opportunity in a low carbon world. Most importantly, it must chart the course of a "new technology revolution" to make Canada one of the world's leading producers and exporters of sustainable energy, through the use of existing and new technologies, innovation, efficiency and conservation.

In this way, the sustainable energy strategy would enable Canada to tap into the substantial economic gains in productivity, trade and employment inherent in a strategic response to climate change. Through the strategy, Canada could also focus on developing specific economic and environmental targets such as those linked to energy intensity and economic productivity.

We believe that the Prime Minister could effectively initiate the strategy by means of a First Ministers' Meeting on Energy and Climate Change.

The NRTEE will be proposing long-term priorities for this sustainable energy strategy in its April 2006 report to the Prime Minister.

***Canada must further develop and maintain a comprehensive and integrated research and monitoring effort to support action on climate change.***

Canada needs a comprehensive and integrated observation network to provide decision makers with reliable knowledge about the state of the climate and its effects on natural and human communities in Canada. There is a clear need to improve Canada's capacity for assessing trends and impacts at the regional and sectoral levels in relation to meteorological and climatic events. This will require an enhanced focus on significantly improving data gathering, management and sharing capabilities, as well as on certain areas of primary research.

At the same time, an argument for improving monitoring in no way implies that existing evidence of climate change and its resulting impacts provides an insufficient basis for action. As we have concluded, immediate actions are required relating both to adaptation and mitigation.

## **2. Engaging the United States and Key Developing Countries**

### **Recommendations**

*The NRTEE recommends that:*

1. Canada broaden the terms of engagement with the United States and key developing countries to focus on mutual interests such as energy productivity and security, technology development, and adaptation.
2. Canada engage the United States on climate change through organizations and relationships at the regional, local and sectoral levels.
3. Canada lead the development and implementation of a North American adaptation strategy, with an initial focus on the northern regions.
4. Canada undertake "Team Canada" initiatives with key developing countries, led by the Prime Minister and bringing together opportunities for financing, emissions trading, and technology diffusion and transfer.
5. Canada join innovative multilateral agreements outside the Kyoto process, such as the Asia-Pacific Partnership on Clean Development and Climate.
6. Canada work to make climate change a multi-year agenda item for the G8, given the risks to global economic and political stability.
7. The Prime Minister continue to advocate the L20 as a forum for engaging the United States and key developing countries on climate change and energy issues.



## Rationale

*We believe that:*

***Canada has a particular national interest in seeing the United States take action on climate change that is consistent with the actions taken by Canada.***

The pressure for domestic action on climate change in the United States has increased sharply in the last year, and sub-national initiatives to address climate change continue to multiply. However, we believe that, given the stance of the current administration, meaningful U.S. engagement in the multilateral process for climate change is unlikely in the near term (i.e., one to two years) and a remote possibility in the medium term (three to five years).

Canada's interest in engaging the United States on climate change is based on the significant economic relationship that exists between the two countries – there are questions as to whether the Canadian economy can remain competitive in the North American context given our ratification of the Kyoto Protocol. Canada's fundamental national interest lies in seeing the United States take action on climate change that is consistent with the actions taken by Canada. Whether that action is taken in relation to U.S. participation in multilateral processes or strictly in the domestic context is secondary. What matters is that Canadian economic interests are protected through a level North American playing field on climate change policy action.

Canada's interests in engaging the key developing countries (China, India, South Africa, Brazil and Mexico) centre on the need to (a) minimize competitiveness concerns related to asymmetrical policy action on climate change and (b) maximize opportunities for market development in sustainable energy technologies.

***For the United States and key developing countries, concern over climate change is secondary to concerns related to energy security and basic economic development.***

In seeking to engage the United States and the key developing countries, Canada must acknowledge that these countries are focused far less on climate change per se than on questions of energy security, economic development, and technology development and transfer.

These issues, which are closely linked to climate change, are obviously of great importance to Canada, as well. They could serve as possible means for engaging these countries, helping build trust, relationships and momentum for broader action. However, Canada will have to change the language of its dialogue on climate change: there will have to be less discussion on mitigating GHG emissions and more on technology, energy productivity, and global economic and political stability.

***Canada could be more opportunistic and aggressive in using a wider range of processes and relationships to engage the United States.***

We believe that increased priority should be placed on promoting U.S. domestic action on climate change, through issues such as energy productivity and technology development. We also believe that Canada could take advantage of the wide range of public and private sector relationships it enjoys with the United States beyond the level of national government.

As stated earlier, there is a growing sub-national response to climate change that creates opportunities for linkages into Canada's domestic response. Examples might include linkages

between the provinces, the Canadian government and U.S. states on carbon trading initiatives or joint corporate/sectoral initiatives.

At the national level, Canada should adopt as a priority the development of a North American adaptation strategy, in partnership with the United States and Mexico.

***Canada's approach to developing countries should combine existing multilateral efforts with a more concerted bilateral approach.***

Canada believes strongly in the primacy of the United Nations Framework Convention on Climate Change (UNFCCC) process as the negotiating forum for global action on climate change. This reflects Canada's role as the incoming president of the UNFCCC process. It also reflects Canada's reality as a small emitter (2 to 3 percent of global GHGs) that is already experiencing substantial climate change impacts.

As noted earlier, Canada has a substantial national interest in seeing a strong *global* response to climate change. At the same time, Canada needs to recognize the limitations attached to the UNFCCC. There is a general sense that the UNFCCC process is dysfunctional. Clearly, the policy approach of setting absolute reduction targets and creating a cap-and-trade system (as reflected in the Kyoto Protocol) is not one that will bring China and India (or the United States) on side, at least in the near to medium term. As a result, Canada needs to explore other venues on the multilateral and bilateral fronts, perhaps much more aggressively than in the past.

Canada's bilateral approaches to engaging developing countries should bring together in a coherent strategy – built on an understanding of common interests – all of the various instruments Canada has at its disposal (trade promotion, financing, aid programs, etc.). An example might be the development of a “Team Canada” visit to China, which would bring together Canadian companies, financiers and public officials to seek market opportunities for sustainable energy technologies or carbon emissions trades. China, in particular, has communicated a willingness to support processes in which climate change may be linked to other issues. Canada also has bilateral arrangements related to energy and climate change with several developing countries, such as the Letter of Intent on Climate Change Initiatives with Mexico.

On the multilateral front, there are a number of options for engaging developing countries in the post-2012 architecture. For example, Canada could push for recognition of certain policies and measures, such as those affecting land use or afforestation activities. Such policies and measures serve both developing countries' interests in linking climate change to development and Canada's interests in seeing a greater supply of carbon credits in the international marketplace.

One recent development worth noting is the newly announced Asia–Pacific Partnership on Clean Development and Climate being undertaken by the United States, Australia, China, India, Japan and South Korea. This agreement – which embraces technology, energy security and climate objectives – represents a very compelling model of the kind of framework agreement that Canada could explore. To the degree that this agreement provides an opportunity for Canada to implement the kind of enhanced bilateral and multilateral relationships on climate change advocated above, Canada should give serious consideration to joining the Partnership. At the same time, we encourage the government to give due consideration to the impact of this agreement on current and future discussions on post-2012 climate change regimes.

***Both the G8 and L20 processes could effectively build confidence and broaden engagement on climate change.***

In the medium to long term, Canada could begin developing concrete policy responses under both the G8 and L20 frameworks. Moreover, there is nothing to say that the two processes should not continue to operate independently. Canada could make the case that certain issues are better suited to the G8, while others may be better addressed in the context of the L20.

Canada could link climate change much more directly with the G8's core purpose: the management of the global economy and international crises. Such a strategy would identify areas where coherent and cooperative climate change policies might be developed across the G8 space and beyond. As well, there are immediate opportunities to promote a multi-year approach to climate change in relation to the G8. For example, Canada could work with the Russians (2006 hosts) to promote a focus on Arctic impacts and on energy. Similar approaches could be undertaken with host countries of future G8 meetings (Germany in 2007, Japan in 2008 and Italy in 2009) – all strong supporters of action on climate change. Consistent with this multi-year approach, Canada should also strongly support implementation of the Gleneagles plan of action on Climate Change, Clean Energy, and Sustainable Development.

The advantage of using the L20 to discuss climate change lies in the close correlation between the group's potential membership (the world's 20 largest economies) and the world's 20 largest GHG emitters. However, not all key potential participants appear to be interested at this time, though, importantly, both China and India are supportive. For that reason, coupled with the possibility that these countries will not be fully engaged by the UNFCCC process, we believe that the Prime Minister should continue his strong advocacy of the L20 proposal, and begin to make the case in a more public way for why climate change might be an ideal issue for consideration in the L20 framework.

The NRTEE will continue to examine this important strategic issue in its second phase of work, with the goal of providing advice to the Prime Minister by April 2006.

### **3. Improving the Clean Development Mechanism (CDM)**

#### **Recommendations**

*The NRTEE recommends that:*

1. Canada contribute to strengthening CDM operations through financial and institutional support for the organization.
2. Canada promote the adoption of Canadian technology in CDM projects through its Climate Fund and other financing mechanisms.
3. Canada cooperate with other Annex B countries to help sustain the flow of new CDM projects by providing a market value for post-2012 emissions reductions/removals.

## **Rationale**

*We believe that:*

### ***Canada has a strong interest in seeing a strengthened CDM.***

The CDM, as the only flexibility mechanism of the Kyoto Protocol currently operating, is laying the foundations for an international market for carbon credits. Ensuring that the ground rules are properly set at the beginning will create a more robust carbon market in the future and help build public trust in the overall process.

As a short-term buyer and potentially a longer-term seller of emissions credits, Canada has a major interest in the development of a robust carbon market. In particular, Canada has an interest in seeing the CDM generate a deal flow, so that the carbon/GHG markets in which it will participate have greater liquidity than is currently the case. Without that liquidity, the cost of available credits will be high, adversely impacting the ability of companies, countries and the global community at large to realize cost-effective reductions in GHGs. The deal flow could also be seen as representing opportunities for the export and transfer of Canadian environmental technologies.

Currently, however, there is general consensus within the international community that the CDM is not operating efficiently, in either project development or approval. There are concerns, in particular, about the institutional capacity of the organization, which is seriously underfinanced and operating essentially as a volunteer organization.

The Executive Board of the CDM has adopted measures to address some of these efficiency concerns. Canada could signal its support for the CDM's role, and encourage the support of others in the international community, by making a direct financial contribution to the organization and by providing capacity-building support in key administrative areas.

### ***CDM projects represent a potential market for Canadian firms with low emissions technology.***

The CDM will increase the market for some emissions reduction/removal technologies in developing countries. In the short-term, the scope for using the CDM to expand Canada's trade or improve its international competitiveness may be limited. However, Canadian companies that have low emissions technologies and a comparative advantage over competitors in other countries could expect the CDM to increase the market for those technologies.

To realize this opportunity, Canada could develop a strategy directly linking its low emissions technologies to CDM projects. The strategy would have a short-term and a long-term dimension. In the short-term, it would explicitly link Canada's current competitive advantage in emissions reduction technologies with project-based initiatives in developing countries. In the long-term, it would seek to align Canada's public investments in such technologies with markets that emerge for them based on climate change policies.

Each Canadian technology could be evaluated to determine whether CDM projects are likely to be a significant potential market, whether the technology is competitive in that market and, if so, how best to capture that market. The Climate Fund could be authorized to pay a premium for certified reductions from projects that use Canadian technology. In addition, Canadian technology suppliers could offer innovative financing, such as loans with partial repayment in the form of certified emissions reductions. This option will be further explored in other work the NRTEE is planning in response to the Prime Minister's mandate.

***Current limitations in the CDM are undermining the development of a global carbon trading market.***

The lack of negotiated commitments beyond 2012 means that post-2012 reductions/removals currently have virtually no market value, even though the crediting period could extend well beyond 2012. As a result, there are concerns about a decline in the number of CDM projects in 2007 or 2008 and beyond.

To sustain the flow of new CDM projects, Canada and other industrialized countries could provide a market value for post-2012 reductions/removals. This could be done by including some post-2012 reductions/removals as part of contracts to purchase certified emissions reductions from new projects. Canada could seek to have this practice adopted by carbon funds to which it has subscribed, such as the Prototype Carbon Fund, and could implement it for purchases of certified emissions reductions by the Climate Fund.

Canada could also encourage a cooperative effort by Annex B government buyers, through their direct purchases or through the carbon funds to which it has subscribed. No decision by the Conference of the Parties or the CDM Executive Board is required.

## **In Conclusion**

We, the members of the NRTEE, share the Prime Minister's concerns about the potential impacts of climate change on the Canadian economy, environment and quality of life. In this initial phase of work, we have agreed that:

- Climate change is already posing a real threat to Canada's national interest, and the impacts will likely affect all Canadians, regardless of their location or livelihood;
- The global policy response to climate change will likely lag over the next decade, with the United States and key developing countries remaining outside the Kyoto process; and
- Canada is not well prepared to address the inevitable impacts of climate change over the next generation, or to seize the opportunities that will flow from a strategic response.

We share, too, the Prime Minister's belief that Canada needs a strong response to the threats and opportunities presented by climate change. We believe that over the next year or two:

- The Prime Minister has an opportunity to bring climate change to the top of the national agenda by launching a sustainable energy strategy and taking the message for change directly to Canadians;
- Canada could more aggressively engage the United States and the key developing countries on climate change through mutual concerns about energy productivity, security and technological development; and
- Canada could make a real difference in strengthening the Clean Development Mechanism and helping to create a robust international market for carbon credits.

A central, and perhaps overriding, question is how all this could best be undertaken, in an effective and open manner, through sound governance of the climate change file – both within the Government of Canada and in its dealings with other jurisdictions and constituencies. This is a question we will pursue in the next phase of our work.