

r e v i e w

News from the National Round Table on the Environment and the Economy

Emissions Trading: Part of the Climate Change Solution

Emissions trading refers to a market where parties can buy or sell permits or allowances for emissions, or credits for reductions in emissions, of specified pollutants. Trading can work within a region or country, or on a global basis. Experts view emissions trading as a cost-effective way to help reduce global greenhouse gas emissions.

Meeting the Challenge

Canada has the second-highest per capita greenhouse gas emissions in the world. If we ratify the Kyoto Protocol, we will have to reduce emissions to six percent below our 1990 levels. This will be a small but important step toward the 60-percent reduction called for by many scientists. Strong resolve and innovative action will be necessary if we are to succeed. Emissions trading is a practical – and promising – way to make progress.

Domestic Emissions Trading – NRTEE's Cross-Canada 'Tour'

In September 2001, the federal government asked the Round Table to broaden awareness and understanding of emissions trading and its potential role as part of a suite of responses to climate change. This program of *informing* a broad range of stakeholders about the issues and options lays a founda-



Left to right: Robert Hornung, Policy Director, Pembina Institute for Appropriate Development, David K. Findlay, Vice-President, Infrastructure, DuPont Canada, Helen Howes, Vice-President, Sustainable Development, Ontario Power Generation and Ken Ogilvie, Executive Director, Pollution Probe and Vice-Chair of the NRTEE presented their views on the major environmental and economic trade-offs of domestic emissions trading during the afternoon panel discussion in Toronto, January 29, 2002.

tion for meaningful *consultation* on the topic beginning this spring.

To this end, five half-day seminars – in Halifax, Montreal, Toronto, Calgary and Vancouver – were held in January. Nearly 900 people attended. Full-day seminars for leaders in the sectors to

be affected most by a domestic emissions trading system and opinion leaders were held in each city following the half-day information sessions. Nearly half of the 180 attendees at these sessions were at a senior or vice-president level. ►

More on
Emissions Trading
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Building
Sustainable
Enterprises
Workshop
Brochure
Inside

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Two additional sessions followed in March, both in Ottawa – a public information seminar and an information briefing for parliamentarians and staff.

At all these gatherings, scientific and technical specialists provided information and participants were able to express their views and have their questions answered.

Setting the Stage for Discussion

Introducing the information seminars across the country, **Patricia McCunn-Miller** and **Ken Ogilvie**, Co-Vice-Chairs of the NRTEE, set a realistic frame for discussion.

Ms. McCunn-Miller, Managing Director of Environment and Regulatory Affairs at PanCanadian Energy, encouraged participants to examine the issues of climate change and emissions trading through a sustainable development lens, by asking how this will allow Canada to meet its social and environmental responsibilities while ensuring a strong economic base. She noted that globalization pressures necessitate an understanding of the connection between the economy and the environment, particularly in a more carbon-constrained future.

Mr. Ogilvie, Executive Director of Pollution Probe, said that preventing and

adapting to climate change are two of the biggest challenges of the 21st century. The Kyoto Protocol is a first step toward reducing greenhouse gas emissions, and domestic emissions trading will help Canada reach its targets. Our policy challenges are to ensure that targets aren't undermined by shifting emissions elsewhere and that fairness and equity issues are addressed. Canada, which has been slow to put policies in place, can learn from the experience of others, including Denmark and the U.K.

Key Concerns

A number of questions and concerns were raised repeatedly in the sessions across the country. Here are the main ones, along with brief responses.

How will emissions trading fit within Canada's overall response to reducing greenhouse gases?

Estimates vary, but one detailed study done by the Pembina Institute and the David Suzuki Foundation noted that some 200 companies (in oil, gas and coal production, in heavy industry and in electric power generation) account for 65 percent of all industrial emissions. It concluded that a reasonable, cost-effective trading program applied to these firms could achieve nearly one-third of Canada's Kyoto commitment.

What will Canada's emissions-trading system look like and how will it be equitable in terms of sectoral or regional differences across the country?

It's a question of whether we adopt a permit ('cap and trade') system, a credit system, or some combination of the two. In a permit-trading system, defined groups of emitters would be allocated a portion of the total number of permits available (the cap).

Emitters that take measures to reduce emissions below the level allowed by the permits they hold could sell their unused permits to emitters who are above their allowed levels. Initial allocation of permits would most likely occur through a combination of auction, free grandfathering, and free allocation in proportion to current production.

Participants that emit beyond the limits of their permits could face stiff penalties. In a credit-trading system, companies would be allowed to certify emission reductions below

a certain voluntary or imposed level as "tradeable credits" which they could sell to others needing them to meet their own target levels of emissions. There are advantages and disadvantages to each approach, but the permit system is deemed to be the more effective in achieving the necessary environmental objectives. In any case, revenue generated from the sale of permits or credits can be recycled to the hardest-hit sectors or regions to aid their transition to the "carbon-constrained future" we face.

How would Canada's trading system work between the provinces and internationally?

The domestic system should allow efficient trading between companies in one sector, amongst those in different sectors, and across all provinces. Ideally, this system should mesh easily with the Kyoto Protocol's international trading system scheduled to commence in 2008. The sooner we establish our own system, the better chance we have to be policymakers – not policy takers – in the international arena.

What impact will reduction requirements in Canada have on companies here, given that the U.S. isn't planning to ratify the Kyoto Protocol?

With the U.S. out, there will likely be short-term negative competitiveness impacts for Canada, particularly in carbon-intensive industries (oil and gas, electricity generation and chemicals sectors). On the bright side, U.S. non-participation equates to lower-cost credits for companies that cannot meet their targets.

When will the federal government reveal its policy and will there be an opportunity for real consultation?

The information seminars just completed are a part of the policy-development process. By increasing awareness and understanding of the issues, more informed discussion and debate should ensue.

Consultation is scheduled to begin this spring – allowing governments at all levels, industry, and other stakeholders to work together to shape the final policy.

Stay informed. To keep up on developments, click on 'Stay Informed' on the Emissions Trading homepage and sign up for the free e-mail news service.



emissions
TRADING

www.nrtee-trnee.ca/emissions

We have devoted a special section of our Web site to provide the latest on emissions trading information and activities. Pages include:

- ABCs of ET
- Progress in Canada
- Other Countries' Experiences
- Resources
- Links ... and more.

Check it out!

Notable Quotes

Presenters and panellists at the emissions trading sessions across the country offered a range of perspectives. More information, presentations and proceedings from each of the sessions can be found on the Emissions Trading section of our Web site.

Douglas Russell, President, Global Strategies International.

“Trading for the sake of trading is a ‘non-starter’ – to be effective it must result in real, tangible changes.”

Chris Rolfe, Staff Counsel, West Coast Environmental Law Association.

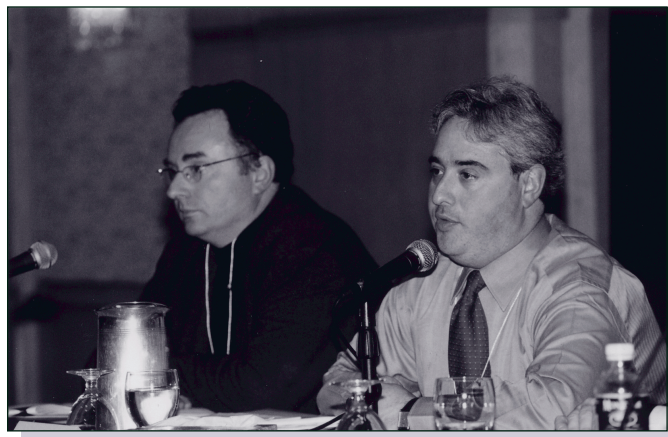
“It’s the legal limits on greenhouse gas emissions that will get us ahead. Stabilizing the climate requires 60-plus percent reductions, and this won’t come from end-of-pipe solutions. It needs to come from changes in the products we use, how they are made, and how they are consumed.”

Gerard Protti, Vice-President, New Ventures, PanCanadian Energy. “A critical issue for the oil and gas industry is the overall system design, and the need to eliminate uncertainty as quickly as possible. The timing, point of imposition, emission limits, allocation methodology, compliance, and international implications all need to be addressed.”

Richard Williams, Director, Sustainable Development, WestCoast Energy Inc. “Climate change is a complex global issue that requires an enlightened regulatory approach. Emissions trading is a proven tool that can help Canada meet both its environmental and economic objectives.”

Dirk Forrister, Managing Director, Strategic Issues, Natsource. “There is a tremendous opportunity for Canada to

influence the development of a reasonable and responsible global emissions trading system, particularly given that the international community looks to Canada as a bridge to the U.S.” ■



Richard Rosenszweig, Managing Director, Natsource and the former Chief-of-Staff to the US Secretariat of Energy, and Douglas Russell, President, Global Change Strategy International (left), answered questions from the audience of over 300 who attended the Public Information Session in Toronto.

International Action

- ❑ **Denmark** implemented a CO₂ ‘cap and trade’ system in its electricity sector in 2001. It will run as a pilot project until 2003.
- ❑ **New Zealand** announced plans in 2001 to use domestic emissions trading as a key part of its climate change policy. The scheme will be adaptable to fit with any international trading system.
- ❑ **Norway** is preparing a domestic trading system to cover 80 percent of its emission sources and to be in effect by 2005.
- ❑ **The European Union** is proposing a region-wide ‘cap and trade’ system for large sources such as refineries, smelters and power plants beginning in 2005.

Details on these countries and the experiences of other countries, organizations and companies are included on our Web site at:

www.nrtee-trnee.ca/emissions

Emissions Trading Primer

The *ABCs of Emissions Trading* is a background paper prepared by the NRTEE as a part of this emissions trading awareness initiative. The paper provides concise answers in plain language to 15 key questions about emissions trading. The full document appears in the *Emissions Trading* section of our Web site. Issues addressed include:

- Governments have a key role to play in determining overall emissions limits, allocation of permits, eligibility of offsets, and time frames and penalties for non-compliance.
- Competition amongst emitters can stimulate innovation and development of the least-costly reduction techniques.
- Experience with a sulphur dioxide emissions trading program in the U.S. to reduce acid rain has led to greater than anticipated reductions and lower than expected costs!
- Administrative costs (to government) to establish a well-designed trading system could be quite low. Once the rules are determined, the ongoing market could be independent and financially self-supporting through a small levy on trades.
- There is a role for municipalities, NGOs and even individual citizens. They could get involved by creating offsets (such as landfill gas capture projects or tree planting) and selling these credits to emitters. They could also buy up permits on the market and retire them permanently, thus tightening the supply of permits and accelerating the pace of change.
- Emissions trading will not, in itself, solve our climate change problems, but it can complement other measures, including mandatory and voluntary emissions reductions at specific sources, a move to cleaner energy sources and energy-reducing efficiencies, and an increased commitment to public transportation. ■

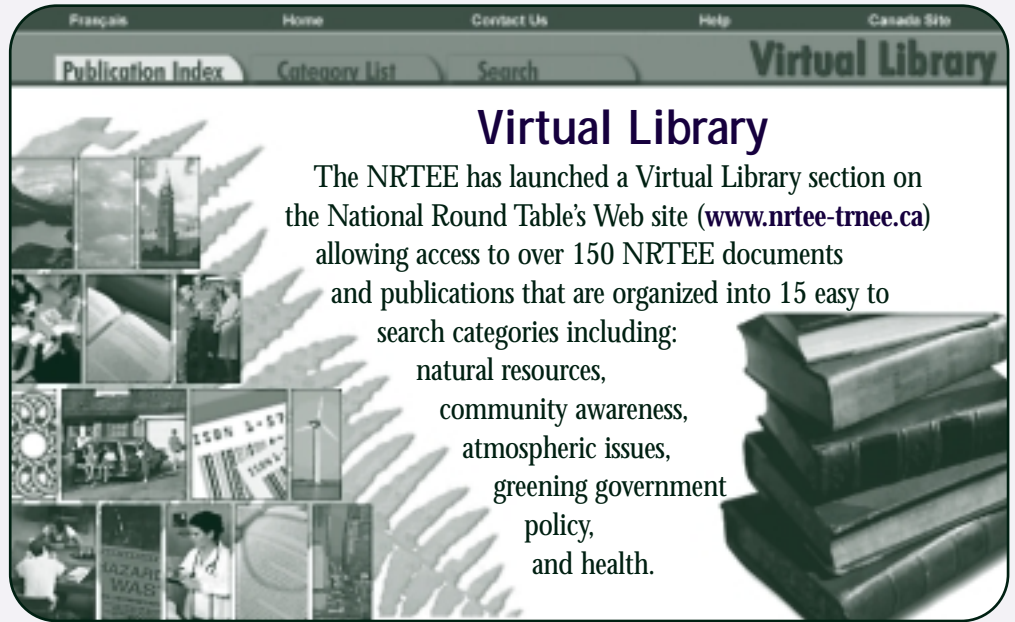
Conferences Coming Up

Building Sustainable Enterprises Eco-Efficiency: How leading companies improve their competitiveness

This comprehensive two-day workshop, building on the NRTEE's early work on eco-efficiency, is being offered in five major centres across Canada in April and May, 2002. See the enclosed brochure or our Web site for details and registration information.

National Conference on Environment and Sustainable Development Indicators – An Update on the ESDI Initiative


This conference, open to the public, will take place in Ottawa on June 19, 2002. Check the Web site for details. ■



Virtual Library

The NRTEE has launched a Virtual Library section on the National Round Table's Web site (www.nrtee-trnee.ca) allowing access to over 150 NRTEE documents and publications that are organized into 15 easy to search categories including:

- natural resources,
- community awareness,
- atmospheric issues,
- greening government policy,
- and health.



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