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EMISSIONS TRADING

The Ontario government has a five-point action plan to reduce industrial emissions of harmful air pollutants as part of its commitment to clean up Ontario's air. The plan includes an initiative to reduce emissions of two of the most significant smog-causing pollutants, nitrogen oxide (NO_x) and sulphur dioxide (SO₂).

Seven large industrial sectors – electricity, iron and steel, cement, petroleum refining, pulp and paper, glass and carbon black – are required to lower their emissions in stages. Some industries have taken a quick lead in reducing emissions, while others are slower to reach their targets.

The government has introduced a number of initiatives to help industrial facilities reach their targets. Emissions trading is one of many tools being used in Ontario to help reduce smog-causing emissions from coal and other fossil-fuel fired electricity generators, in a flexible, least costly way. Ontario's emissions trading system covers NO_x and SO₂.

How does it work?

The following is a simplified model of an emissions trading system:

- The government sets a goal for emissions reduction called an emissions target for a given area or region and specific caps on emissions for key industrial sectors.
- The total emissions allowed under the cap are divided into allowances, with each allowance equal to one tonne of emissions. Each capped emitter is allocated a specific number of allowances by the government, which equals the amount of pollutants that the emitter is allowed to release into the atmosphere in a given year.
- Each capped emitter is required to monitor its actual emissions throughout the year and report annual or seasonal emissions amounts. At the end of the year, if the actual emissions are equal to the number of allowances, the capped emitter has achieved compliance and does not have to take further action.
- If the actual emissions are greater than the number of allowances, the capped emitter can “buy” allowances from another capped emitter that has excess allowances.
- If the actual emissions are less than the number of allowances, the capped emitter can “sell” its allowances to another capped emitter which exceeded its allowances, or “bank” them to meet its own reduction commitments in future years. This allows a company with high environmental

performance to gain financially, while a company with lower environmental performance must pay for its higher emissions.

The system provides economic incentives for those who reduce emissions and higher costs for those who must buy allowances. Overall, total emissions stay within the emissions target set by government.

In addition to the allowances issued to capped sectors, emissions reduction credits are another type of unit that can be traded. Each credit represents one tonne of approved emission reductions, and are created by non-capped emitters that take action to reduce emissions at their site. Credits are subject to approval by the ministry before they can be sold to capped emitters.

There are three key advantages to emissions trading:

- The system improves the flexibility and economic efficiency in achieving emission-reduction objectives: it allows participating parties to apply emission reduction strategies where it is most cost-effective to do so, for their specific facility.
- Participants that can reduce emissions at lower costs achieve larger reductions.
- Flexibility in choosing reduction strategies creates an incentive for participants to develop and implement new lower-cost emission reduction practices or technologies.

Ontario Emissions Trading Registry

The Ontario Emissions Trading Registry tracks the creation, transfer and use of allowances and emission-reduction credits issued under Ontario's Emissions Trading Regulation (O. Reg. 397/01). It also provides the primary mechanism for public notification and comment on key portions of these transactions.

For more information on Ontario's emissions trading program, visit:

Ontario Emissions Trading Registry: <http://www.ene.gov.on.ca/envision/air/etr/>

Ontario's Emissions Trading Regulation: O.Reg.397/01:
http://www.ene.gov.on.ca/envision/env_reg/documents/2001/RA01E0020-C.pdf

Ontario Emissions Trading Code:
<http://www.ene.gov.on.ca/programs/4346e01.pdf>

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