

“Large Final Emitters”: The Centrepiece of Canada’s Climate Change Plan

Large Final Emitters account for about half our emissions

Major industrial facilities account for about half of Canada’s greenhouse gas (GHG) emissions, and industrial emissions have risen at a faster rate than the national total. The sheer size and rate of increase of emissions from these facilities make these large final emitters (LFEs) the most important sector addressed by the Government’s November 2002 *Climate Change Plan for Canada*. The *Plan* commits to secure 55 megatonnes of reductions in annual GHG emissions from a system of regulated emission targets for LFEs. Canada’s overall Kyoto target, which the country has to begin meeting in 2008, is equivalent to 240 megatonnes of reductions.

The voluntary approach has failed

In Canada and internationally, it is well recognized that the voluntary approach to reducing LFE emissions has been tried and failed. Canada’s industrial GHG emissions (a category slightly larger than LFEs) rose by 23% between 1990 and 2001 — the period when governments were relying on the voluntary approach exemplified by the now-defunct Voluntary Challenge and Registry program. Emissions from electricity generation rose 44% while emissions from upstream oil and gas rose 50%. These increases were significantly faster than the increase in Canada’s total emissions, which rose by 18% over the same period.

Any credible plan will contain a system of regulated emissions targets

Regulation is therefore required, and other Kyoto signatories are moving quickly to implement systems of regulated emissions targets combined with emissions trading. Most notably, the EU (now comprising 25 countries) has already passed legislation establishing its own version of the LFE system, which will enter into operation on January 1, 2005, three years earlier than the scheduled start date for Canada’s LFE system. Clearly, any credible Canadian climate change plan is going to contain a system of regulated emissions targets combined with emissions trading for industry — whether it is the Government’s current (November 2002) plan or a revised or new plan that the Government might decide to prepare.

Lord Brown, CEO of the oil giant BP, wrote recently in *Foreign Affairs*: “Recent experience suggests that emissions trading regimes — whereby government sets a binding cap on total emissions... are the best policy for encouraging business... A well-designed trading regime would include a strictly enforced cap...” In other words, an effective system of emissions targets and emissions trading requires legislation.

The US is moving in the same direction

The states of Oregon, Massachusetts, New Hampshire and Washington all have systems of regulated carbon dioxide (CO₂) emissions targets and emissions trading for the electricity generation sector, and nine north-east states are currently developing a similar regional system. In Congress there is also strong interest in and support for constraining GHG emissions. The bill introduced in January 2003 by senators McCain and Lieberman would cap GHGs emitted by the electricity generation, transportation, industrial, and commercial sectors (representing 85% of total US emissions) at their 2000 level after 2010. The bill was defeated fairly narrowly by 55 votes to 43 in the Senate in October 2003. More than half of the current 100 senators have voted at one time or another for proposals to legislate a cap on CO₂ emissions from the electricity sector.

The legislation is ready and industry's main concerns have been met

The Government committed to put in place the LFE system “with a regulatory or financial backstop” in its November 2002 plan. Since then, the Government has invested a large amount of resources in developing the details of the system and of the legislation needed to create it. Some 30 papers have been published on design details and Natural Resources Canada (NRCan) officials have held hundreds of meetings with industry representatives. Industry's main concerns with the LFE system have already been addressed by the Government through several major concessions, notably:

- setting targets in terms of emissions intensity, not emissions, which protects fast-growing sectors
- limiting emission intensity reductions to 15% below business as usual — which many companies will be able to achieve through low-cost and even profitable reductions in their own emissions
- guaranteeing that in any case industry will not have to pay a compliance cost of more than \$15 per tonne of GHGs
- providing for covenants to replace regulations to address individual companies' special circumstances.

The legislation will not commit the Government to particular targets

The LFE legislation is essential to create the framework for an effective LFE system. But officials are not proposing that the legislation itself set targets or timelines for emissions reduction. Instead, these would be established in regulations or covenants developed after the legislation has been passed. In other words, *industry concerns about proposed targets must not be confused with opposition to legislation*. The Government can proceed with the legislation without committing to any particular level of targets.

There is significant industry buy-in

Despite the impression that some would like to create, there is significant industry buy-in for the LFE system as it is currently conceived by NRCan, and major industry players are readying themselves to comply with the system. On August 24, 2004, TransAlta, Canada's second largest GHG emitter, announced it had purchased 1.75 million tonnes worth of GHG credits valid for compliance with the LFE system. In 2003, Canadian members of the International Emissions Trading Association including Alcan, Dofasco, Hydro-Québec, Lafarge, Noranda, Petro-Canada, Shell Canada and Suncor agreed with the Government on a set of principles for “designing an effective and efficient domestic emissions trading system.” In 2003 the Forest Products Association of Canada signed a Memorandum of Understanding (MoU) with the Government agreeing to an LFE system target to reduce emissions intensity 15% below the projected level in 2010. Some additional industry players are now expressing interest in signing MoUs defining their LFE targets.

LFE legislation needs to be introduced in Parliament this fall

These major commitments have been undertaken in anticipation of the LFE system being in place as part of Canada's implementation of the Kyoto Protocol. The LFE system must therefore be fully functional by January 1, 2008. In view of the time needed to go through all the stages of Parliamentary process and then for the necessary regulations to be adopted, *the LFE legislation therefore needs to be introduced in Parliament this fall*. In the short term, further delay will perpetuate the uncertainty that hampers industrial investment decisions on multi-decade capital projects. But more importantly, it will delay Canada's transition to the low-carbon economy that we need to have if we are to be competitive in the 21st century while the world takes meaningful steps to address climate change.