The Role of "Large Final Emitters" in Canada's Kyoto Plan

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Industry's emissions share and growth rate[2]

	Share of Canada's GHG emissions (2002)	Growth in emissions 1990–2002
Oil and gas production, distribution, refining	19.6 %	46.7 %
Electricity and heat generation	17.6 %	35.4 %
Other industry (mining and manufacturing)	15.0 %	–6.0 %
Total industry	52.3 %	23.3 %
Total Canada	*100 %*	*20.0* %

"Large final emitters" (LFEs) account for about 85% of total industry emissions.

What the *Climate Change Plan for Canada* committed to for LFEs

Measures	Reduction in annual CO_2e emissions (2010)
System of mandatory emissions targets and emissions trading	55 Mt
Targeted measures to reduce LFEs' emissions intensity	18 Mt[3]
Targeted measures to reduce output of fossil-fuelled electricity	19 Mt[4]
Total reduction needed for Canada to meet its Kyoto target	*240 Mt*

The *Plan* assigned to LFEs the responsibility for securing the 55 Mt under the targets-and-trading system, while government would pay for targeted measures to reduce emissions beyond this amount.

Four weakenings of the targets-and-trading system for LFEs

The first three weakenings were proposed in a recent Natural Resources Canada submission to cabinet,[5] and are depicted visually in the attached chart entitled *Greenhouse Gas Emissions from Canada's "Large Final Emitters"*. The fourth weakening was proposed in a recent Environment Canada discussion paper.[6]

Weakening	Emission reduction liability transferred to the Government
1. Increase in the business-as-usual emissions projection caused by additional industrial production (especially in oil sands)	29 Mt (transferred to Government by use of emissions intensity targets)
2. Double counting of targeted measures under the targets-and-trading system	18 Mt
3. Reduction in the overall target of the targets-and-trading system	up to 18 Mt
4. Counting industry payments into a Technology Investment Fund towards compliance with targets	up to 20 Mt?

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[2] Environment Canada (2004), *Canada's Greenhouse Gas Inventory 1990–2002*.
[3] Pembina Institute estimate.
[4] Pembina Institute estimate.
[5] Dennis Bueckert, *Proposed changes to Kyoto plan would ease emission targets for big polluters*, Canadian Press, January 17, 2005.
[6] Dennis Bueckert, *Plan would let big polluters put money into research rather than cut emissions*, Canadian Press, January 20, 2005.

Weakening the LFE system is not justified economically

For the oil and gas sector — the largest LFE sector with 37% of industrial emissions:

- A 15% emission reduction target (corresponding to a targets-and-trading system delivering 55 Mt) represents a maximum cost of just 25 cents per barrel of oil.[7]
- According to Eric Lloyd, President of the Petroleum Technology Alliance Canada, Canada's oil and gas industry could reduce annual emissions by 29 Mt through "economical" actions that would save the industry $1 billion per year.[8]
- Oil and gas companies that have adopted voluntary GHG targets have discovered large amounts of emission reductions that are actually profitable. BP "found that efficiency and emission reduction was good business. So while some remained locked in a debate about predicting the cost of reductions, our staff were pursuing activities that added value. In fact within the first three years we added $650M of value, for an investment of around $20M."[9]

For the electricity sector — the second largest LFE sector with 34% of industrial emissions:

- Over 90% of Canadian electricity is sold in Canada,[10] much of it in regulated markets. The sector can therefore much more easily share cost increases with consumers than sectors more exposed to international competition.

[7] George Anderson, Deputy Minister, Natural Resources Canada, testimony to House of Commons Standing Committee on Industry, Natural Resources, Science and Technology, November 4, 2004.
[8] See http://www.ptac.org/links/dl/CompellingBusinessCase.pdf, page 5–6.
[9] John Browne, CEO of BP, Speech to the Institutional Investors Group, London, November 26, 2003.
[10] Statistics Canada (2003), *Electric Power Generation, Transmission and Distribution 2001*, Catalogue no. 57-202-XIB, p. 12.