

Climate Change, Kyoto and the New Federal Government: Concerns and Expectations

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1. Introduction

Climate change caused by greenhouse gas (GHG) emissions from human activities is among the world's most pressing global issues – and has been recognized as such by national science academies, numerous governments and prominent corporations. Ensuring that Canada takes sufficient action to cut GHG emissions is therefore one of the most important responsibilities of the Government of Canada. It is also a legal obligation, following the Kyoto Protocol's entry into force as international law in February 2005.

Recent statements by ministers and revelations of funding cuts suggest, however, that the Harper government is reducing and delaying federal efforts to cut GHG emissions at a time when they urgently need to be expanded. Below we document this evidence, which adds up to an abandonment of Canada's Kyoto obligation. We then lay out ten priority federal actions that, if initiated immediately, can put Canada back on a path to meet its Kyoto target.

The situation is urgent because less than two years remain before Canada must start complying with its Kyoto target on January 1, 2008. Years of inadequate federal and provincial government action have left Canada's emissions in 2003 24% above the 1990 level, while our Kyoto target is 6% below the 1990 level. Federal policy action will stimulate emission reduction projects by businesses, provinces and citizens, but many such projects have considerable lead times for implementation on the ground. We have therefore reached the point where every month is critical.

Governments agreed at last December's UN climate conference in Montreal to start negotiating a second set of GHG reduction targets under the Kyoto Protocol for the period beginning in 2013, when the first set of Kyoto targets will have expired. Rona Ambrose, Canada's Environment Minister, currently chairs these negotiations, which start with a May 17–25 meeting in Bonn.

If Canadians are to believe that the new government takes climate change seriously or that its claim to be “working within Kyoto”² has any practical meaning, the priority actions we lay out below must be announced before the Bonn meeting and reflected in the upcoming federal budget and main estimates. Failure to act now will result in a major international embarrassment for Canada in Bonn.

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² Chris Morris, “Federal environment minister says Canada will not opt out of Kyoto,” *Canadian Press*, March 15, 2006.

2. Concerns

2.1 “Starting from scratch”

Questioned on climate change on March 28, Prime Minister Stephen Harper said “I think we’re starting from scratch. I don’t think the previous government left us with a lot that we can really build on.”³ The following week the Prime Minister reiterated that “we’re going to be starting from scratch.”⁴ The April 4 Speech from the Throne failed to mention Canada’s Kyoto obligation at all, promising only to “take measures to achieve tangible improvements in our environment, including reductions in pollution and greenhouse gas emissions.” No timeline was provided.

It would be understandable if the new government wanted to put its own stamp on existing programs or programs under development, but there is no justification for “starting from scratch.” The Prime Minister’s statements appear to be a denial of the urgency of action to cut GHG emissions and an attempt to justify a delay of many months or more before the government produces a coherent climate change plan. They could also be used to justify cutting valuable existing programs.

The fact is that the federal government already has a number of effective climate change programs operating. Examples include the popular EnerGuide for Houses grants to help homeowners make energy-efficient renovations; the one-cent-per-kilowatt-hour (kWh) Wind Power Production Incentive (WPPI) that has made possible a dramatic expansion of low-impact renewable energy production; and Canada’s Energy Efficiency Regulations that set minimum standards for energy-using appliances.

Additional important federal climate change programs were at an advanced stage of development but had not yet been implemented at the time of January’s election. Examples include “Large Final Emitters” regulations to set GHG targets for heavy industry; an expansion of WPPI from 1000 megawatts (MW) of capacity to 4000 MW; a Renewable Power Production Incentive (RPPI) to extend WPPI to 1500 MW of other low-impact renewable technologies; and a \$4–5 billion⁵ Climate Fund to provide incentives in proportion to emission reductions achieved by any GHG reduction project.

2.2 Reducing Canada’s overall effort

On April 5 it was reported that federal funding for climate change programs in the new fiscal year had been reduced by 40%.⁶ Several existing federal climate change programs expired on March 31, at the end of the last fiscal year. It appears that some of these have been kept going on an interim basis using “Governor General Special Warrants.” But funding for other programs has not, at this point, been renewed. These include dozens of projects to educate Canadians about personal action to reduce GHGs under the One Tonne Challenge; BIOCAP, a program that funds

³ “PM says government will have to ‘start from scratch’ on climate,” *Canadian Press*, March 28, 2006.

⁴ “Peter Mansbridge interviews Stephen Harper,” *CBC News Online*, April 4, 2006.

⁵ \$1 billion was allocated to the Fund in the February 2005 federal budget but the previous government’s climate change plan stated the intention of adding a further \$3–4 billion.

⁶ “Tories plan cuts to climate change programs,” *CBC News Online*, April 5, 2006.

research into the production of energy from agricultural and forest waste; and the Canadian Climate Impacts and Adaptation Research Network (C-CIARN).

Some climate change programs are doubtless poorly conceived and should be terminated. But other programs are insufficiently effective not because they are badly designed, but because they are not sufficiently well funded. What is essential is that the overall federal effort on GHG reduction be increased, not decreased. This means that funding for programs that are terminated must be reallocated to other, better climate change programs. The cost-effectiveness of federal climate policy could also be considerably increased by making more use of tax shifting and regulations directed at GHG reductions.

Unfortunately, it appears that the new government is not only reducing total funding for climate change programs, but in some cases reallocating money towards less cost-effective uses. The Conservative Fiscal Plan, released during the last election campaign, called for a re-allocation of \$2 billion “from the climate change fund to pay for the transit pass tax credit.” A leaked Department of Finance briefing note estimated that the government’s proposed transit pass tax credit would cost \$2,000 per tonne of GHG emissions reduced,⁷ while economic modelling shows that Canada has abundant opportunities to cut emissions at a cost in the tens of dollars per tonne.⁸

(It should be noted that the government’s proposed transit pass tax credit is a far more costly measure than making employer-provided transit passes a non-taxable benefit – a measure that environmental organizations support.)

Ministers have cited a Treasury Board review of climate change programs, ordered by the previous government in its February 2005 budget, as justification for cutting programs.⁹ The review, however, has not been made public, preventing independent verification of whether the termination of programs is justified.

2.3 Stalling on regulating industry

Heavy industry, including sectors such as oil and gas, electricity generation and chemicals, is responsible for almost 50 per cent of Canada’s GHG emissions.¹⁰ Industrial GHG emissions rose in Canada by 25% between 1990 and 2003.¹¹ Clearly, voluntary measures cannot credibly control these emissions. A system of regulated GHG targets, combined with emissions trading, is an essential part of any Canadian climate change plan.

⁷ Dennis Bueckert, “Tory transit-subsidy plan far more costly than Liberal Kyoto plan: documents,” *Canadian Press*, April 7, 2006.

⁸ M.K. Jaccard and Associates (March 7, 2002), *Construction and Analysis of Sectoral, Regional and National Cost Curves of GHG Abatement in Canada – Part IV: Final Analysis Report*. Contract No: NRCan-01-0332. Submitted to Michel Francoeur of Natural Resources Canada.

⁹ Dennis Bueckert, “Tory transit-subsidy plan far more costly than Liberal Kyoto plan: documents,” *Canadian Press*, April 7, 2006.

¹⁰ Government of Canada (2005), *Moving Forward on Climate Change – A Plan for Honouring our Kyoto Commitment*, p.14.

¹¹ Environment Canada (2005), *Canada’s Greenhouse Gas Inventory: 1990–2003*.

The previous government had been developing such a system for the past three years, a process that included hundreds of meetings with industry and other stakeholders. GHGs have already been listed under the Canadian Environmental Protection Act (CEPA), which makes them eligible for regulation. By the end of 2005 Environment Canada was at an advanced stage of preparation of regulations under CEPA to set mandatory GHG targets for industry.

However, since the new government was sworn in, progress towards regulations appears to have stopped. Consultations with stakeholders have ceased while officials await directions. A certain amount of delay resulting from the change in government was to be expected. But ministers have not made even a general statement of support for regulation of industrial GHG emissions. Conservative MP Bob Mills, formerly the party's Environment Critic, recently stated that the new government will likely want to remove GHGs from CEPA and put them instead in its proposed new Clean Air Act.¹²

Regulations setting GHG targets for Canada's largest emitters need to be in place by January 1, 2008, when Canada must start meeting its Kyoto target. Given the considerable time typically needed to put regulations in place, and the need to provide industry with the certainty that it needs to make investment decisions, it is urgent that the government move ahead quickly to publish draft regulations.

It is unlikely that sufficient time remains to adopt new legislation as well as the necessary regulations under such legislation. Removing the only current federal tool to regulate GHG emissions (listing of GHGs under CEPA) before a credible alternative tool is fully in place is a recipe for more uncertainty and further delay.

2.4 Backing away from international cooperation

The Kyoto Protocol includes several mechanisms that allow nations to buy international credits that can be used towards meeting their GHG targets. Contrary to the rhetoric about "hot air" credits, most types of Kyoto credits represent real emission reductions from good environmental projects. Numerous developed countries have already created funds to purchase credits from poorer countries as part of their Kyoto efforts.¹³ Under the previous government, the Climate Fund was to be Canada's purchasing agency for international credits.

Canada can reap multiple benefits from purchasing good-quality international Kyoto credits. Such purchases will:

- benefit Canada's environment by reducing foreign emissions that are contributing to climate change in Canada;
- generate goodwill in helping finance a more sustainable mode of development in poorer and more vulnerable countries;
- provide a cost-effective option for Canada to take responsibility for its own emissions above and beyond low-cost domestic GHG reduction opportunities;
- provide business opportunities for Canadian exporters of environmental technologies;

¹² Hanneke Brooymans, "CO₂ may lose toxic gas status," *Edmonton Journal*, April 8, 2006.

¹³ For a partial list of national funds, see <http://www.ieta.org/ieta/www/pages/index.php?IdSiteTree=1274> and <http://www.ieta.org/ieta/www/pages/index.php?IdSiteTree=1275>.

- support the development of the global “carbon market” – a business-friendly framework for cutting GHG emissions;
- ensure that Canada will have some credibility when it argues that some developing countries should begin to take on GHG commitments after 2012.

Less than two years remain before Canada must start complying with its Kyoto target. As noted in Section 1, years of inadequate federal and provincial government action have left Canada’s emissions far above our target. It is therefore now clear that Canada can no longer meet the target purely through domestic action. In light of the time needed for planning, approval and construction of the projects that will generate credits, Canada needs to move immediately to begin selecting good-quality international projects and signing contracts to purchase credits.¹⁴

The corollary of this is that a refusal to contemplate substantial volumes of credit purchases is a refusal to meet Canada’s Kyoto target. Unfortunately, ministers have made statements that seem to rule out the purchase of any international Kyoto credits, failing to distinguish between “hot air” credits and credits that represent real emission reductions.^{15,16}

In addition, Minister Ambrose has seemingly called into question whether Canada should even contribute to the cost of holding intergovernmental negotiations on climate change. Responding to a question from a Conservative backbencher in the House of Commons on April 7, the minister stated that last December’s UN climate conference in Montreal cost the government \$44 million. She then added: “This government refuses to do that. We will be accountable to the environment and accountable to taxpayers.”

As Minister Ambrose notes, a key aspect of Canada’s participation in international cooperation to address climate change is accountability. Canada is expected to provide reports on its actions and other submissions as a result of its obligations under the UN Framework Convention on Climate Change (UNFCCC) and the Kyoto Protocol. Currently, the Government of Canada is late in meeting three deadlines for such submissions.¹⁷

3. Expectations

Minister Ambrose claims that “it is impossible, impossible for Canada to reach its Kyoto target;”¹⁸ “the Kyoto accord is seriously flawed and . . . the emissions targets it imposes on Canada are unrealistic and unattainable.”¹⁹ On April 6 in the House of Commons, Stephen

¹⁴ It should be noted that there is no need for all Canada’s credit purchases to be made by the federal government. Industrial emitters could purchase credits as one way to meet their regulated targets (see Section 2.3).

¹⁵ Rona Ambrose, “Mandate to clean up air, water, soil,” *Toronto Star*, March 1, 2006.

¹⁶ Bill Curry, “Tories will neither kill nor live up to Kyoto,” *Globe and Mail*, April 7, 2006.

¹⁷ The deadline for producing a Fourth National Communication under the UNFCCC was January 1, 2006. The deadline for tabling national reports demonstrating progress made in implementing the Kyoto Protocol was also January 1, 2006. (The Protocol stipulates that each industrialized country “shall, by 2005, have made demonstrable progress in achieving its commitments under this Protocol.”) The deadline for submitting government views on the “Kyoto phase two” negotiations that will begin in May 2006 in Bonn, was March 15, 2006. Canada has asked for extensions for all three of these submissions.

¹⁸ See, for example, Dennis Bueckert, “Tories call for more realistic Kyoto targets,” *Canadian Press*, April 7, 2006.

¹⁹ Rona Ambrose, “Mandate to clean up air, water, soil,” *Toronto Star*, March 1, 2006.

Harper referred to “the conclusion [of] many world leaders . . . that the international community will not achieve the Kyoto protocol objectives.”

These statements are unjustified and misleading. Canada has multiple options for meeting its Kyoto target, many of which were alluded to in Section 2. It is simply untrue that “many world leaders” subscribe to the notion that their countries will fail to comply with the Kyoto Protocol.

Canada can still meet its Kyoto emissions target, but only if the federal government takes major, immediate action. As explained in Section 1, implementation of effective federal measures to reduce GHG emissions has now become extremely urgent.

Below we lay out ten priority federal actions that can put Canada back on a path to meet its Kyoto target. But if Canadians are to believe that the new government takes climate change seriously or that its claim to be “working within Kyoto”²⁰ has any practical meaning, these actions must be announced before the Bonn climate negotiations (May 17–25) and reflected in the upcoming federal budget and main estimates.²¹ All of the actions are feasible, affordable, and can be initiated within the next few weeks: all that is needed is political will.

The bulk of Canada’s GHG emissions result from energy production and energy use in industry, transportation and buildings. A serious attempt to meet Canada’s Kyoto obligation must therefore include government measures capable of stimulating substantial GHG emission reduction projects and activities by producers of oil, gas and electricity, industrial energy users, and the owners of vehicles and buildings.

GHG reductions can be achieved by using energy more efficiently, or by using cleaner sources of energy. Energy efficiency and low-impact renewable energy have benefits both for GHG reductions and for cleaner air. The most effective measures will be regulated targets and standards, financial incentives that are large enough to have a significant effect on behaviour, and direct government investments in infrastructure. Public education programs are also essential to help citizens understand the why and how of cutting emissions that are within their control. And it is critical to maintain government investments in scientific research to continue to enhance our understanding of the extent, causes and impacts of climate change.

The ten priority actions below are intended to encompass the main areas of opportunity for GHG emissions reduction. While they can put Canada back on a path to meet its Kyoto target, they are not, on their own, sufficient for meeting the target, and they represent only a first step towards a comprehensive federal climate change plan. When the government produces such a plan, it will need to contain additional measures and detail in all the areas. The Pembina Institute will provide more detailed views on a comprehensive federal climate change plan in due course.

²⁰ Chris Morris, “Federal environment minister says Canada will not opt out of Kyoto,” *Canadian Press*, March 15, 2006.

²¹ The main estimates are due to be tabled in Parliament on or before April 25. See Bea Vongdouangchanh, “Conservatives operating on GG warrants to run government,” *Hill Times*, April 10, 2006.

3.1 Ten actions

We call on the government to announce and immediately initiate actions to reduce Canada's GHG emissions as follows. In addition, in light of the government's commitment to greater accountability, we also call for the Treasury Board review of climate change programs, ordered in the February 2005 federal budget, to be made public so that the government's funding decisions can be fully scrutinized.

Industry

- 1. Provide a timeline for introducing draft and final regulations under CEPA to set adequate mandatory GHG targets for industry such that the targets can begin to apply on January 1, 2008.**

Transportation

- 2. Announce either that the April 2005 voluntary Memorandum of Understanding with automakers on tailpipe GHG emissions will be maintained and enforced, or that it will be replaced by regulated vehicle efficiency standards set at an equivalent or stronger level that meet the same timeline.**
- 3. Announce new federal infrastructure investments in public transit to match or exceed the government's spending commitments for highways.²²**

Energy efficiency

- 4. Confirm, with details of funding and a timeline, that effective existing programs such as EnerGuide for Houses and standards under Canada's Energy Efficiency Regulations will continue to be strengthened.**

Renewable energy

- 5. Provide a timeline for implementing the quadrupling of the Wind Power Production Incentive (WPPI) and the introduction of a one-cent-per-kWh Renewable Power Production Incentive (RPPI) during 2006.**

Other financial incentives

- 6. Announce, with a timeline, either a continued implementation of the Climate Fund at the previously announced level of funding or a reallocation of that funding to financial incentive programs of equal or greater effectiveness in reducing GHG emissions.**

Provincial measures

- 7. Allocate federal funding specifically for supporting key provincial government measures to cut GHG emissions, at a level sufficient to ensure such measures can be initiated immediately.²³**

²² The government called for a \$2 billion investment in a new "stable, permanent Highways and Border Infrastructure Fund" as part of its election platform, but it has not announced any equivalent funding for transit. The Canada Strategic Infrastructure Fund, a \$4 billion program that provided substantial funding to public transit, is almost exhausted. Efficient, convenient transit services that encourage commuters to switch away from personal car use will result in substantial GHG reductions. The government needs to create a new permanent Transit Infrastructure Fund or an equivalent mechanism funded at least to the same level as its new highways fund.

International credits

- 8. Announce, with details of funding and a timeline, that Canada will move immediately to initiate substantial purchases of international Kyoto credits that represent real emission reductions in poorer countries.**

Public education

- 9. Announce that past funding levels for public education programs on climate change will be maintained or increased.**

Science

- 10. Announce that past funding levels for research into the science and impacts of climate change will be maintained or increased.**

²³ Key measures needed to cut GHG emissions, such as improvements to building codes, electricity conservation programs, renewable energy mandates and investments in clean energy infrastructure, fall under provincial jurisdiction. Substantial federal funds are needed to support these provincial measures.