

Meeting Our Kyoto Obligation: Canada's Essential Implementation Steps in 2005

The Kyoto Protocol requires Canada, under international law, to reduce its greenhouse gas (GHG) emissions to an average of 6% below the 1990 level during 2008–12. On April 13, 2005 the federal government published its plan to meet this requirement: *Moving Forward on Climate Change: A Plan for Honouring our Kyoto Commitment*.¹

The Plan meets Canada's emission reduction target on paper. But it only has a chance of meeting the target in practice if it is implemented urgently. There are several reasons for this urgency:

- Canada's emissions are now 24% *above* the 1990 level (Plan p.42), while our Kyoto target is 6% *below* the 1990 level;
- By the end of this year, only two years will remain before the Kyoto target begins to apply;
- The government needs time to finalize the design of policies and measures, including holding consultations, and to put in place the necessary staff;
- Most of the emission reduction projects that should be stimulated by the new policies and measures have significant lead times for planning, approval and construction.

In other words, Canada can only say with any credibility that it expects to meet its Kyoto target if implementation of the Plan starts immediately and is ramped up to full scale as quickly as possible. Government procedures will need to be significantly accelerated beyond normal practice, and innovative procedures will likely be needed.

The Plan lacks details and timelines for implementation. However, the government has recognized the urgency of implementation by committing "to make major on-the-ground implementation steps in all areas of the Plan before the end of 2005." (p.46) The purpose of this document is to lay out a schedule of implementation steps for the government to take in 2005 to meet that commitment and to be credibly on track to meet our Kyoto target.

Adequate implementation of the Plan during 2005 is all the more critical considering that Canada's progress in complying with the Kyoto Protocol will be under intense international scrutiny when thousands of delegates attend the first Meeting of Parties (MOP-1) to the Protocol, to be held in Montréal between November 28 and December 9, 2005.² The schedule laid out in this document takes into account the need for Canada to make a convincing case at the Montréal conference that the Plan is being properly implemented.

Several major environmental organizations are critical of some aspects of the Plan.³ For example, the environmental community has stated strongly that the proposed amount of mandatory reductions in industrial emissions is insufficient. However, while those concerns remain, this document focuses on implementation of the Plan as it currently stands.

¹ The Plan is available at http://www.climatechange.gc.ca/kyoto_commitments/.

² This conference is commonly known as "COP-11," as it is also the eleventh session of the Conference of Parties to the United Nations Framework Convention on Climate Change.

³ See, for example, the joint statement available at <http://www.pembina.org/newsitem.asp?newsid=137>.

The Plan contains ten measures, shown in Table 1, to achieve the approximately 270 megatonnes (Mt) of reductions in annual emissions needed to meet our Kyoto target.⁴ Below we provide brief explanations of the implementation timelines needed for the first six measures, which account for the vast bulk of the reductions. The complete schedule of implementation steps is summarized in Table 2.

There is no doubt that the implementation schedule presented here will be challenging for the government to meet. Meeting it will require, for example, immediate action to ensure that significant additional staff are hired or reassigned. But if ministers can produce the political will for Canada to do what is necessary for “Honouring our Kyoto Commitment,” this schedule is not only necessary but also achievable.

Table 1. GHG-reducing measures proposed in Canada’s new federal Kyoto plan

Sectors	Measures	Reduction in annual emissions by 2010 (Mt)
Industry, including electricity production	1. <i>Large final emitter system</i> : regulated targets and emissions trading	36
	2. <i>Emerging renewable energy</i> : “a variety of mechanisms... including production and tax incentives”	about 15
Road transportation	3. <i>Automobile industry</i> : voluntary agreement	5.3
Potentially all	4. <i>Climate Fund</i> : government purchase of domestic and international credits	75–115
	5. <i>Partnership Fund</i> : shared federal-provincial investments in major projects; regulatory action by provinces (e.g., building codes)	55–85
	6. <i>Programs</i> : other measures (e.g., financial incentives)	about 40
	7. <i>One-Tonne Challenge</i> : encouragement of voluntary action by individuals	5
	8. <i>Greening government</i>	1
	9. <i>New Deal for Cities and Communities</i> : transfer of gasoline tax revenues for “environmentally sustainable infrastructure”	not estimated
Other	10. <i>Business-as-usual sinks</i> : credits for forestry and agricultural “sinks” under current practices	10–30
Total		287 (mid-range)

⁴ These reductions are measured relative to the projected “business-as-usual” level of emissions in 2010.

Table 2. Summary of necessary Kyoto implementation steps in 2005

	Large final emitter system	Emerging renewable energy	Automobile industry	Climate Fund	Partnership Fund	Programs
June	<ul style="list-style-type: none"> Formally announce intent to add GHGs to Schedule 1 of CEPA Establish multi-stakeholder committee to examine interpretation of BATEA 		June 4: Formation of joint committee to ensure accountability for the MoU	<ul style="list-style-type: none"> Launch public consultation on the offset system Launch public consultation on the mode of operation of the Fund Begin promotion of Canada's intention to purchase international credits 	<ul style="list-style-type: none"> Set out proposed mandate and implementation of the Fund Initiate MoU negotiations with all provinces and territories where they are not yet underway 	
July		Launch multi-stakeholder consultation on the functioning of RPPI				
August – late				<ul style="list-style-type: none"> Finalize criteria to be used by the offset body and its mode of operation Publish first offset quantification protocols Finalize mode of operation of the Fund 		Complete the review of existing programs
September – early	<ul style="list-style-type: none"> Publish initial findings of BATEA committee Publish the draft LFE regulation Publish business-as-usual projections for each industry sector 	Begin formal discussions of a National Renewable Energy Strategy at the Council of Energy Ministers Meeting		<ul style="list-style-type: none"> Launch the solicitation process for domestic offset projects Launch the solicitation process for international credits 		
September – late						
October – early		Announce finalized details of RPPI	October 2: Tabling by the committee of its mandate and operational plan		Make a supplementary budget allocation sufficient for initiatives accounting for at least one-half of the Fund's emission reductions	
November – late			November 30: Reporting by the industry of projected GHG emissions for the 2006 model year	<ul style="list-style-type: none"> Register the first offset projects and sign the Fund's first offset credit purchase agreements Sign the Fund's first international credit purchase agreements and have several other agreements under negotiation 	Reach agreement on cost-sharing of a range of specific initiatives for Alberta, British Columbia, Manitoba, Ontario, Québec and Saskatchewan	Announce publicly a revised package of programs

Explanations of the implementation timelines

1. Large final emitter system

The large final emitter (LFE) system is a set of mandatory (regulated) emission targets for heavy industry, including the oil and gas, electricity generation, mining and energy-intensive manufacturing sectors, which account for close to 50% of Canada's GHG emissions. Companies will be able to meet LFE targets through a combination of reducing their own emissions and purchasing emission credits, i.e., paying for emission reductions achieved elsewhere. The Plan acknowledges that "early implementation of the LFE system is important, since without it there is much less financial incentive for companies to seek out opportunities to reduce emissions from their operations." (p.16) Specifically, in order to plan how to meet their obligations, companies urgently need to have a clear idea of the targets they will face. This requires the government (i) to put in place the legislative framework for regulating emissions and (ii) to publish the LFE regulation that will specify numerical targets. The Plan commits to publish "in spring 2005" a "draft Protocol setting out how CEPA 1999 [the existing Canadian Environmental Protection Act] could be used to implement the LFE system" (p.18), to "development of the LFE regulation, beginning in spring 2005" (p.17), and states that the draft LFE regulation is "expected" to be published "in fall 2005."

The government must take the following steps in 2005:

1. Formally announce its intent to add GHGs to Schedule 1 of CEPA, its "preferred option for implementing the LFE system." (p.17) Only once GHGs have been added to Schedule 1 can the government adopt an LFE regulation. To create certainty that there will be a legislative framework for the LFE system, this announcement should take place immediately, i.e., in **June**.
2. Establish and provide analytical support to a multi-stakeholder committee charged with examining different options for interpreting the Plan's commitment that "targets for new facilities and facilities undergoing major transformations will be based on BATEA [Best Available Technology Economically Achievable] performance standards." (p.16) The amount of emission reductions from individual companies and from the LFE system as a whole could vary greatly depending on the interpretation of BATEA. This committee should be established immediately, i.e., in **June**, so that companies with new facilities can have a clear idea of their targets as soon as possible, and so that the public can understand the environmental implications of references to BATEA in the LFE regulation.
3. Publish, therefore, the committee's initial findings in **September**, at the same time as the draft LFE regulation (next point).
4. Publish the draft LFE regulation, which will include proposed numerical targets for each industry sector covered. In keeping with the Plan's commitment to do this in fall 2005, the regulation should be published in **September**.
5. Publish business-as-usual projections of emissions and production in 2010 for each industry sector that has a distinct target under the LFE regulation. This information will be needed to be able to assess whether the numerical targets in the regulation add up to the total amount of emission reductions that the government has committed to secure from the LFE system.⁵ The information should therefore be published, at the latest, at the same time as the draft LFE regulation, i.e., in **September**.

⁵ This is because those emission reductions are measured starting from business-as-usual levels.

2. Emerging renewable energy

The Plan outlines four mechanisms to support “emerging” renewable sources of electricity, and names wind, solar, small hydro, biomass, geothermal and tidal power as examples of technologies covered.

These mechanisms are:

- Expansion of the existing Wind Power Production Incentive (WPPI), which provides a subsidy for each kilowatt-hour of wind power produced;
- Creation of a new Renewable Power Production Incentive (RPPI) to support other “emerging” renewable sources of electricity;
- Increased capital cost allowances for high-efficiency cogeneration and low-impact renewable energy generation equipment, as well as tax incentives for district energy systems, under the Income Tax Act; and
- “Supportive provincial actions through measures such as renewable portfolio standards.” (p.20)

The expansion of WPPI, funding for RPPI and the tax changes were all included in the February 2005 federal Budget. They do not require legislative changes. No further immediate implementation steps are needed for WPPI and the tax changes, but the government must prepare the details of how the RPPI will operate. To provide adequate lead time to renewable energy project developers, those details should be finalized at least six months before RPPI begins on April 1, 2006. The government should therefore launch a multi-stakeholder consultation on the functioning of RPPI by **July** and announce the finalized details in **early October**.

Regarding the role of provincial governments, Canada needs a National Renewable Energy Strategy (NRES) to ensure that federal and provincial governments are working together as effectively as possible to optimize the development of low-impact renewable energy in Canada. Formal discussions of a NRES should begin at the Federal-Provincial-Territorial Council of Energy Ministers (CEM) Meeting in New Brunswick in **September**. Provincial actions to support low-impact renewable energy should be a condition of federal support through the Partnership Fund (Section 5 below).

The rules for the issuance of offset credits (Section 4 below) will need to specify the extent to which such credits can be granted to “emerging” renewable electricity generation facilities. Those rules will need to ensure there is no double counting between the “Emerging renewable energy” section of the Plan and the LFE system and Climate Fund, where offset credits (see Section 4 below) will count towards emission reductions.

3. Automobile industry

The Plan incorporates the voluntary Memorandum of Understanding (MoU) of April 5, 2005, between the federal government and the automotive industry,⁶ under which the industry has agreed to produce vehicles with lower emissions than would be the case in a business-as-usual scenario. The MoU requires three implementation steps to take place in 2005:

1. Formation, by **June 4**, of a joint committee “to ensure accountability for this MoU.”
2. Tabling by the committee, by **October 2**, of its mandate and operational plan “for approval by the parties.”
3. Reporting by the industry, by **November 30**, of projected GHG emissions for the 2006 model year.

The MoU’s credibility depends on these deadlines being met.

⁶ The MoU is available at http://www.nrcan-rncan.gc.ca/media/mous/2005/20050405_e.htm.

4. Climate Fund

The Climate Fund is an agency charged with purchasing emission credits on the government's behalf. Credits are certificates granted in recognition of emission reductions from projects that reduce emissions below business-as-usual levels. Projects that would not be economic in the absence of any dollar value for their emission reductions will be enabled to proceed with the financing stream from the sale of credits. According to the Plan, projects could be undertaken in the agricultural, forestry, buildings, industry, transportation, municipal and electricity sectors and would include "sinks" projects in which carbon dioxide is absorbed from the air by trees or soils. Within Canada, "offset credits" will be issued by an "offsets body under the authority of the Minister of the Environment." (p.21) Offset credits would be available for use by large final emitters to meet their targets (Section 1 above) as well as for purchase by the Climate Fund. Outside Canada, international credits will be issued by the United Nations bodies responsible for implementation of the Kyoto Protocol.

There is a particular urgency in ramping the Climate Fund's activities up to full scale as quickly as possible because emission reduction projects, which need to be delivering emission reductions by the time our Kyoto target starts to apply in 2008, have significant lead times for planning, approval and construction. The Plan recognizes this urgency by committing to hold a public consultation on "aspects of the Fund's mandate, such as how to ensure benefits to Canada from investment in international emission reductions," in "spring 2005." (p.22) "At the same time, the proposed criteria to be used in reviewing projects [for the purposes of issuing offset credits] will be published. Project reviews and the registrations of eligible projects could begin as early as fall 2005, the same timeline that applies to the selection and initial signing of contracts for projects generating Kyoto [i.e., international] credits." (p.22)

The Climate Fund is expected to be created by Parliament as part of the current Budget implementation bill, initial funding of \$1 billion having been allocated to the Fund in the February Budget. Although relatively little of this funding is available in 2005–06 and 2006–07,⁷ this should not prevent the Fund from immediately entering full-scale operation (selection of projects and signature of contracts), because most emission credit purchases are cash-on-delivery, and most types of credits can only begin to be delivered in 2008.

The government must take the following steps in 2005:

1. Hold a public consultation on (i) the criteria for selecting projects eligible for offset credits and quantifying the credits and (ii) the mode of operation of the offset body that will issue the credits. Establishing sound, practical criteria for issuing credits and transparent operation of the offset body will be critical in ensuring that projects are selected in a timely manner, that credits represent only genuine emission reductions, and that the offset system is seen to be fair and credible. In keeping with the Plan's commitment to begin this consultation in spring 2005, it should be launched in **June**.
2. Hold a public consultation on the mode of operation of the Climate Fund. Key issues will include the balance between domestic and international credits, the establishment of an efficient purchasing process (e.g., by providing clarity on prices that the Fund will be willing to pay), and capacity support for project developers. In keeping with the Plan's commitment to begin this consultation in spring 2005, it should be launched in **June**.
3. Begin promotion of Canada's intention to purchase international credits using the Climate Fund in **June**. This would include market development, i.e., identification of, and outreach to, potential credit suppliers in a range of countries. It is important to begin this process as soon as possible to meet the Plan's suggestion that "selection and initial signing of contracts" take place in "fall 2005."

⁷ *Budget Plan 2005*, p.198.

4. Finalize the criteria to be used by the offset body and its mode of operation by **late August**. This will be necessary to fulfill the Plan's suggestion that registrations of projects begin in "fall 2005."
5. Accelerate the development of protocols for quantifying emission reductions for key GHG emission reduction technologies, with the first protocols to be published by **late August**. Along with the criteria to be used by the offset body, project developers will need these protocols to be able to put forward projects for registration.
6. Finalize the mode of operation of the Climate Fund by **late August**. This will be necessary to allow solicitation of domestic offset projects and international credits to begin in time for the Plan's suggestion that "selection and initial signing of contracts" take place in "fall 2005."
7. Launch the Climate Fund's solicitation process for domestic offset projects in **early September**.
8. Launch the Climate Fund's solicitation process for international credits in **early September**.
9. Register the first domestic offset projects and sign the first agreements for the Climate Fund to purchase the resulting offset credits by **late November**.
10. Sign the first purchase agreements between the Climate Fund and suppliers of international credits and have several other agreements under negotiation, by **late November**.

5. Partnership Fund

The Partnership Fund will share with provincial and territorial government the costs of initiatives agreed in Memoranda of Understanding (MoU) between the two levels of government. According to the Plan, these initiatives are to include both (i) major infrastructure and industrial projects that reduce GHG emissions, such as east-west electricity transmission grids or more efficient freight transportation and (ii) regulatory changes undertaken by provinces, such as improved building codes. To date, the federal government has signed MoUs with Manitoba, Newfoundland, Nunavut, Ontario and Prince Edward Island.⁸ However, these existing MoUs are limited to generalities and leave the identification and funding of "specific initiatives" to later elaboration in annexes. The Plan states that: "MoUs will be developed where none currently exist and MoUs that are already in place will be enhanced." (p.25)

As with the Climate Fund (Section 4), there is a particular urgency in ramping the Partnership Fund's activities up to full scale as quickly as possible because emission reduction projects, which need to be delivering emission reductions by the time our Kyoto target starts to apply in 2008, have significant lead times for planning, approval and construction. Unfortunately, the Plan does not contain any acknowledgement of this urgency. Indeed, the initial funding of \$250 million allocated to the Fund in the February Budget is available at a rate of only \$50 million per year.⁹ This will simply not be sufficient to initiate major initiatives with provinces commensurate with the emission reductions that the Plan proposes to achieve with the Fund. It is unlikely that provinces and territories will be willing to launch such initiatives on the cash-on-delivery basis that can be used for the Climate Fund's credit purchases.

The Partnership Fund does not require any legislative changes.

The government must take the following steps in 2005:

1. "Set out proposed mandate and implementation of the Partnership Fund — including links to MoU process — for consultation with provinces and territories." This step is mentioned in the Plan (p.46) but with no timeline. Since it seems unlikely that negotiation of specific initiatives can proceed effectively without this step being taken, it should therefore be done as soon as possible, i.e., in **June**.

⁸ The MoUs are available at <http://www.climatechange.gc.ca/english/publications/>.

⁹ *Budget Plan 2005*, p.198.

2. Initiate MoU negotiations with all provinces and territories where they are not yet underway. This should be done immediately, i.e., in **June**.
3. Make a supplementary budget allocation sufficient to allow the federal government to reach agreement with provinces on initiatives accounting for at least one-half of the emission reductions that the Plan proposes to achieve with the Fund. This should be done in **early October** to allow agreements to be reached in November.
4. Reach agreement on federal-provincial cost-sharing of a range of specific initiatives for Alberta, British Columbia, Manitoba, Ontario, Québec and Saskatchewan (which jointly account for 91% of Canada's GHG emissions¹⁰) by **late November**. These initiatives should account for one-half of the emission reductions that the Plan proposes to achieve with the Fund.

6. Programs

The Plan uses the term “climate change programs” to cover miscellaneous measures not covered in other sections. It gives only three specific examples: the EnerGuide for Houses Retrofit Incentive program, which provides grants for home renovation; information programs targeting automobile purchase decisions and driving habits; and the Green Municipal Funds, which pay for feasibility studies and loans. The February 2005 federal Budget confirms that the government has to date allocated \$2 billion for climate change programs for fiscal years 2005–06 to 2009–10 inclusive;¹¹ this number is reproduced in the Plan. (p.30) The Budget also launched a review of all climate change programs, to be completed “prior to releasing these funds for 2006–07.”¹² The review is to determine which programs should be maintained or expanded, which should be modified and which terminated. “New programs will be introduced where a clear rationale exists...” (p.30)

The programs section of the Plan has an ambitious emission reduction target. Given that programs aim to change the behaviour of individuals, businesses and other organizations, and that the amount of emission reductions achieved during 2008–12 will depend on how soon those changes occur, it is critical that the government complete its review of programs and make a revised allocation of the available funds as quickly as possible.

The government must take the following steps in 2005:

1. Complete the review of existing programs by **late August**. The government should have all the necessary information already to hand, and so the three months available should be sufficient to determine the key conclusions.
2. Publicly announce a revised package of programs, building on the results of the review, by **late November**. This would allow six months in total to reach agreement within the government on the most effective programs to continue with. The government should move immediately to cancel programs that are to be terminated and launch new or modified programs. Given the urgency of ensuring the best use of funds have already been allocated, there is no justification for waiting for the end of fiscal year 2005–06 before making program changes.

It is important to note that the “programs” section of the Plan should not be limited to spending measures. The federal government also has regulatory and taxation powers that should be used to reduce GHG emissions. For instance, the previous federal climate change plan (November 2002) included improvements to energy efficiency standards for equipment and appliances,¹³ which are set by regulation under the Energy Efficiency Act. These standards are an important and effective way to remove the most

¹⁰ See http://www.ec.gc.ca/pdb/ghg/1990_02_report/ann10_e.cfm.

¹¹ *Ibid.*

¹² *Budget Plan 2005*, p.173.

¹³ See http://www.climatechange.gc.ca/english/publications/plan_for_canada/plan/chap_3_2.html.

inefficient energy-consuming products from the marketplace and must continue to be improved. The government also stated in the February 2005 federal Budget that it will “actively consider other opportunities to use the tax system to support environmental objectives” and has charged the National Round Table on the Environment and the Economy “to make recommendations to the government for the next federal Budget” for a vehicle “feebate.”^{14,15} A feebate and other programs to reduce emissions from automobiles by influencing individuals’ transportation choices are particularly important given that the MoU with the automotive industry (Section 3) exempts the industry from any responsibility for “external factors that cannot be directly controlled by industry” — presumably including consumer choices.

It should also be noted that along with reduction of GHG emissions, “climate change programs” often have other important objectives that should be considered in the program review. These include reduction of energy costs and other benefits to energy users, as well as development of new industrial opportunities.

¹⁴ A feebate is a combination of a rebate on fuel-efficient vehicles and a fee on fuel-inefficient vehicles.

¹⁵ *Budget Plan 2005*, p.184–5.