

Adequately controlling GHG emissions from LFEs

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Adequately controlling GHG emissions from large industry – from what the government calls Large Final Emitters – requires two things: appropriate legislation, and appropriate emission targets.

I'd like to take a few minutes to focus on the second of these, as many of us believe that the most fundamental question raised by Bill C-43 is not the choice of legislative instrument, but rather whether the government plans to use whatever legislative instrument is chosen to require a sufficient amount of GHG emission reductions by Large Final Emitters.

The amount of emission reductions is the most important question here because Large Final Emitters are responsible for close to one-half of Canada's GHG emissions. And industrial emissions are rising more rapidly than Canada's total emissions. Emissions from the oil and gas sector, the industrial sector responsible for most GHG emissions, rose by 47% between 1990 and 2002.

Clearly, therefore, a regime of mandatory GHG emission targets for Large Final Emitters must be the single most important element of Canada's Kyoto plan.

As members of the Committee will be aware, there have been many media reports on the anticipated contents of the Kyoto plan to be announced next week. In the federal Climate Change Plan for Canada, released in 2002, Large Final Emitters were to be required to secure 55 Mt of reductions. But according to the most recent media reports, the government is envisaging a Large Final Emitter regime that would require industry to secure only 30 Mt of reductions in annual GHG emissions. That would represent just one-ninth of the 270 Mt or so of reductions that Canada needs to secure for Kyoto.

What has happened is that industry groups have had considerable success persuading the government that the mandatory targets need to be weakened, on the purported grounds that Kyoto represents a huge economic burden. This is a myth. The reality is that there is abundant evidence to show that Large Final Emitters, overall, could be required to secure much more than 30 Mt of reductions without significant economic disruption. Here are some key elements of that evidence:

- Federal government and industry sources have confirmed that the currently proposed targets for the oil industry represent at most 25 cents per barrel of oil. That would be the cost if industry met targets simply by purchasing credits, rather than reducing its own emissions. Clearly, when oil is selling for upwards of \$50 US, the industry could afford to make a bigger contribution without significant economic impact.
- According to the President of the Petroleum Technology Alliance Canada, whose members include most of the big oil companies, there are 29 Mt of profitable emission reduction opportunities in

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Canada's oil sector. According to the Alliance, rather than representing a cost, these emission reductions would produce dollar savings of around \$1 billion per year.

- After oil and gas, electricity generation is the industrial sector responsible for the second largest amount of GHG emissions. Over 90% of Canadian electricity is sold in Canada, much of it in regulated markets. The sector can therefore relatively easily pass on cost increases caused by the Large Final Emitter regime to consumers.

It may be true that currently proposed Large Final Emitter targets represent a significant economic challenge for certain industry sub-sectors. But that is clearly not true for Large Final Emitters overall. If targets were set in a way that took account of each sector's circumstances and opportunities, far more than 30 Mt of reductions could be required in the Large Final Emitter regime without significant economic disruption.

The Kyoto plan is a zero-sum game. In other words, with every weakening of the targets for large industry, taxpayers become responsible for a greater portion of the total 270 Mt of reductions that Canada needs for Kyoto. The Pembina Institute recently calculated that the weakenings of the Large Final Emitter regime that the Government is reportedly contemplating represent a cost to taxpayers in the vicinity of \$2.65 billion. The details of the calculation can be found in a backgrounder that we released on March 8.

In our judgement, within the context of the overall Kyoto plan, a Large Final Emitter regime that delivered only 30 Mt of reductions would place such a large burden on other sectors, and on taxpayers, that the credibility of the plan, and its ability to meet Canada's Kyoto target, would likely be stretched beyond breaking point.

Before concluding, I would like to draw your attention to the proposed Technology Investment Fund, which is one of the three Kyoto-related elements in bill C-43.

Large Final Emitters would be allowed to make payments into this Fund and count those payments, at some rate of \$/tonne, towards meeting their targets for the Kyoto period, 2008-12, during which Canada must meet its national Kyoto target. The problem is that the money in the Fund is to be used to pay for research and development, undertaken by industry. While this will hopefully generate emission reductions, the vast majority of those reductions will only occur after 2012. Reductions occurring after 2012 cannot be used by Canada to meet its Kyoto target.

The Technology Investment Fund therefore creates a loophole in the Large Final Emitter regime. The more payments made into the Fund, the less Large Final Emitters will contribute to helping meet Canada's Kyoto target. The Fund actually makes meeting Canada's Kyoto target even more difficult.

According to media reports, the government intends to cap the Technology Investment Fund at 9 Mt. Removing the Fund from the Kyoto plan would therefore strengthen the Large Final Emitters regime and take us 9 Mt closer to Canada's Kyoto target.

Research and development into long-term emission reductions is an important activity, but it should be pursued through other means. It does not have to be linked in this way to industry's compliance with the Large Final Emitter regime.