



Canada's Proposed Large Final Emitters System

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- About the Pembina Institute
- Kyoto: Canadian context
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- Current status of LFE system
- Future of Canada's LFE system and linking opportunity

About the Pembina Institute

- 20 years
- ~ 55 staff across Canada
- Work focused on sustainable energy
- Policy research, advocacy, education, consulting services
- One of Canada's most prominent organizations working on climate and energy policies

Kyoto: Canadian Context

- Canada's Kyoto target: 6% below 1990
- 2003 emissions: 24% above 1990
- Emissions from large industry: ~50% of Canada's emissions
- Emission growth from large industry (1990-2003): 25%
- Federal Government: Working to develop regulated GHG targets for industry, combined with ETS, since 2003 (2002 and 2005 Kyoto Plans)

Proposed LFE system

- 700 companies: oil and gas, thermal electricity, mining, GHG-intensive manufacturing sectors
- Emission intensity targets:
 - **Exiting facilities:** 15% below 2010 BAU emissions intensity levels (process emissions excluded)
 - **New facilities:** based on “best available technology economically achievable”
 - **Total reduction:** 45Mt below 2010 BAU projections
- Compliance options:
 - In-house emission reductions
 - Emission units earned by LFEs that have surpassed their target
 - Domestic offset credits
 - International Kyoto units (no restrictions)
 - Payments into “technology investment vehicles”, up to 9Mt CO₂e
- Price Cap: Limit cost of compliance to \$15/tonne CO₂e
- Penalty for non-compliance: up to \$200/tonne CO₂e
- No auctioning of permits

Proposed LFE system (cont.)

Concerns:

- Intensity targets: production output higher than in BAU
- BATEA-based targets = BAU, locked-in for “at least 10 yrs”
- Transparency issues: 2010 BAU projections and production data are kept confidential
- Questionable domestic offsets (non-additional projects, non-Kyoto compliant credits [pre-2008, US, sinks, nuclear])
- Technology R&D investments = delayed, uncertain GHG reductions
- Non-additional technology investments
- Lateness of implementing LFE system
- 15\$/tonne cap too low, stifles innovation
- Limited liquidity (true-up at the end of the yr vs. upfront allocation of emission allowances)

Current status of LFE system

- By end of 2005, LFE system development well advanced:
 - July 2005: Notice of intent to regulate LFEs published
 - Sept 2005: GHGs listed under CEPA
 - Draft regulations to set LFE targets only months from publication
 - Detailed rules of “Domestic Offset System” close to final
 - Alberta preparing equivalency agreement
 - General acceptance by industry of LFE system
- January 23, 2006: New Conservative Government elected
 - Environment and climate change not in top 5 priorities

Current status of LFE system (cont.)

- No official direction yet, but likely to be implemented in same form
 - Ambrose: “ We will be working toward a system for large emitters to deal with greenhouse...” (11 May 2006, House of Commons)
 - Ambrose: “There are ways government can facilitate a trading system...that could be done through regulation” (12 May 2006, National Post)
- New Gov’t has signaled it will make no attempt to comply with Canada’s Kyoto target
- Rejection of Kyoto mechanisms; rumoured interest in continental ETS
- Domestic Offset System doomed?
 - LFE demand likely limited at best
 - Climate Fund (Gov’t credit purchasing agency) likely cancelled
- Proposed *Clean Air Act* vs. *CEPA* as legislative basis for LFE regulation
 - Insufficient time to adopt new LFE legislation and regulations under proposed *Clean Air Act* before Jan. 1, 2008
- Could remove \$15/tonne cap (good) and 9Mt cap on “technology investment vehicles” (bad)

Future of LFE system

- At this time, high level of uncertainty concerning LFE system
- Name of system likely to change!
- Linking opportunity
 - Stringency of linked systems needs to be compatible - but stringency would be questionable for Canada's offset credits (e.g. additionality issues) and LFE credits (e.g. because of intensity targets)
 - Government of Canada would need to convert domestic credits into Kyoto units for sale to a Kyoto country - questionable likelihood because of previous point
 - If Canada leaves the Kyoto system, probability of linkage with EU becomes even more remote
 - Canada linking with US ETS?₉



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