

CANADIAN ENGO-INDUSTRY CAP-AND-TRADE DIALOGUE

FINAL SUMMARY STATEMENT

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Catalyst Paper Corporation • David Suzuki Foundation • Direct Energy • Dow Canada • DuPont Canada • ENMAX Environmental Defence • Forest Ethics • Pembina Institute • Royal Bank of Canada • Rio Tinto • Sierra Club Canada Spectra Energy • Sustainable Prosperity • The Toronto-Dominion Bank • World Wildlife Fund (WWF) – Canada

Note: The views and recommendations in this submission reflect a consensus developed by the parties participating in the dialogue. The views and recommendations do not necessarily reflect those of any particular party participating in the dialogue.

Introduction

This group, made up of major Canada-based companies and environmental NGOs, was convened to discuss a Canadian cap-and-trade system and prepare recommendations for its design. All organizations agree that carbon pricing must be a critical component of a comprehensive framework for reducing Canada's GHG emissions, and that a cap-and-trade system is one means of achieving carbon pricing. The system must have as a defining feature environmental effectiveness¹ and economic sustainability.

The following presents the group's recommendations on principles for cap-and-trade system design, the system's target and cap type, the coverage of the system and the allocation of emissions allowances.

Principles for Cap and Trade System Design

In order to be environmentally effective and efficient, a federal cap-and-trade system should be:

Comprehensive: The cap-and-trade system should cover as much of Canada's emissions as possible from the outset of the program.

Nation-wide: The cap-and-trade system should establish a national framework with common definitions and standards.

Simple and readily implemented: The cap-and-trade system should minimize overly complex rules and regulations, be easily understandable, be unambiguous and have a clear timetable for implementation.

Transparent and seek to ensure accountability: The cap-and-trade system should have appropriate reporting requirements for participants and appropriate oversight by regulators. The government should publish regular evaluations of the system's effectiveness and efficiency.

Compatible with systems in other jurisdictions: Canada's cap-and-trade system should be designed to facilitate linkages with other cap-and-trade systems.

¹ The group uses the definition of environmental effectiveness that is included in the Design Principles section of the U.S. Climate Action Partnership's "Call for Action" document: "Climate stabilization requires immediate action and sustained effort over several decades. Mandatory requirements and incentives must be stringent enough to achieve necessary emissions reductions within timeframes that prevent an unacceptable level of GHG concentrations and climate change. We must start a program in the near-term that captures short-range reduction opportunities, puts us on the path to stabilizing concentrations, and preserves our options to avoid an unacceptable level of climate change in the future." Further, the group recognizes the broad scientific view that the increase in global average temperature above pre-industrial levels ought not to exceed 2°C.

Predictable but adaptable: The overall policy framework — in particular the basic design elements of the cap-and-trade system — should be as stable as possible to facilitate GHG abatement planning and investment, while allowing for adjustments in light of changing scientific knowledge, international agreements or other changes in basic circumstances.

System Target and Cap Type

The cap and trade system should place an absolute, national cap on covered emissions. Having sectors with different cap types (i.e. absolute and intensity) could create equity issues as well as fungibility issues that may impair trading efficiency. Intensity measures, while not suitable for determining the cap type, could be useful and should be considered for measuring sector and facility performance.

Coverage of the System

The cap-and-trade system should cover as much of Canada's emissions as possible from the outset of the program. Where inclusion of an emitting activity or a corresponding fuel source is not practical, the activity should be induced to reduce emissions through comparable direct regulatory requirements or incentives.

The reporting and compliance thresholds should be as low as possible consistent with both administrative capacity and economic feasibility. For an introductory period, the compliance threshold may be set at a higher level to allow the carbon market program to develop.

If the government initially makes an emitting sector outside the cap eligible to produce offset credits, then the eligibility should be subject to a defined transitional term, after which the sector should then come under the cap where practical.

Allocation of Emissions Allowances

Decisions on the allocation of allowances should be made with the objective of motivating producers and consumers throughout Canada to reduce carbon emissions in response to the price signal. Over time the cap-and-trade system should transition from providing some allowances free of charge to requiring the auctioning of all allowances. The speed of the transition will depend on many factors, and will require the balancing of economic, equity and environmental considerations.

Several considerations lend support to a rapid transition from free allocation to a full auction. These include (i) the general risk of allowances' value being diverted to uses that are not in the public interest, when allowances are provided free of charge; (ii) the specific risk of windfall corporate profits, also when allowances are provided free of charge; (iii) greater simplicity (facilitating transparency and rapid implementation) and (iv) automatic reward for early action, when all allowances are auctioned.

Considerations that lend support to a gradual transition to auction include (i) the limited ability for GHG-intensive and trade-exposed industries to recover GHG compliance costs through global commodity markets in the early implementation phase; (ii) the risk of leakage of jobs and emissions to other countries worsening Canada's economy and resulting in no net GHG emissions reductions globally; (iii) the risk that transitioning too quickly could decrease overall capital spending, and (iv) the risk that capital assets will become "stranded" when compliance costs require premature retirement.

The entities involved in this dialogue process were:

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