

August 13, 2008

Re: Western Climate Initiative Draft Design Recommendations

Dear Western Climate Initiative Partners,

Our organizations support a price on carbon that is applied broadly across the economy as one key plank in an effective climate change strategy. To date, we have been supportive of the WCI's efforts because the process has offered real potential for placing a price on carbon for a significant portion of North American emissions.

We are writing to express our concern with the draft design recommendations released on July 23rd. We believe that these do not live up to the ambition expressed by the partners when undertaking the initiative, nor to the level of ambition expressed by participating Canadian provinces in committing to make deep cuts in greenhouse gas emissions – and especially to the short- to medium-term climate targets that the participating provinces have adopted.

Despite our concerns listed below, we continue to believe that the WCI initiative has the potential to advance action on climate change in North America. That said, the potential of the WCI's cap-and-trade system will only be fulfilled if the current draft design is strengthened significantly and if participating governments commit to additional action to reduce emissions within the short term.

The problems with the WCI's draft design for the cap-and-trade system are by no means irresolvable. Indeed, we have taken care to include effective solutions for each of our main concerns noted below.

1. **Lack of urgency in implementation timeline** (*section 11.1*) – The proposed start dates for the cap (2012 for industrial emissions and 2015 for transportation and heating fuels) represent unnecessary delays when urgent action is needed. An economy-wide price on carbon is needed quickly, and all WCI jurisdictions should have one in place by January 1, 2010, at the latest. Even if it proves too difficult to design and implement a comprehensive WCI-wide cap-and-trade system within that timeframe, we see no reason why jurisdictions could not take action either independently or jointly with a subset of WCI partners. The staged implementation for transportation and heating fuels should also be removed so that both sources are included in the cap and trade by 2012 at the latest. British Columbia's carbon tax demonstrates that timely action on carbon pricing is possible, so if faster progress on cap and trade implementation is not possible, other models are clearly available. The carbon tax took four months to implement after being announced and places a price on 70 per cent of emissions within that jurisdiction – including transportation and heating fuels.
2. **Lack of stringency in initial cap** (*section 6.2*) – The language in the draft recommendations raises the possibility that the cap in 2012 could actually allow for a further increase in emissions from current levels. If this turns out to be the case, the partners would lose at least four years of opportunities to achieve emissions reductions, thereby making the challenge of achieving the regional target that much more difficult (and costly) in the years leading up to 2020. We encourage you to work toward a system that will result in absolute reductions in

emissions at the onset, thereby enabling less disruptive trajectory toward deeper cuts in emissions by 2020 and beyond.

3. **Inability to capture a sufficient percentage of emissions** (*section 3.1*) – The proposal in the draft recommendations to set an emissions threshold at 25,000 tonnes raises concerns because the WCI partners have provided no information regarding the percentage of emissions that would be captured by this threshold. This concern is further exacerbated by the fact that the WCI has not yet indicated how entities will be defined within individual sectors. The interplay between these two variables and the lack of publicly available data make it difficult to provide a specific recommendation at this point. However, the system design would be strengthened if the WCI committed to setting the threshold and defining entities in a way that captures 90 per cent or more of emissions within each capped sector.
4. **Insufficient commitment to auctioned allowances** (*section 8.2*) – The draft recommendations note that there will be a minimum percentage of auctioned allowances, but provide no indication about what that percentage might be. We support 100 per cent auctioning of allowances as a means of ensuring that the system follows a polluter-pay principle and protects consumers from unfair price increases. We recognize that 100 per cent auctioning will result in price increases for consumers but note the revenues raised through an auction of allowances could provide an adequate revenue stream for government investment in priorities such as supporting low-income families, retraining affected workers, and investing in emission reduction measures.
5. **Insufficient limits on the quantity of offsets** (*section 9.2*) – Based on an initial analysis covering all the WCI partners, the draft recommendations could allow for more than 40% of the system's cumulative reductions relative to business as usual (between 2012 and 2020) to come from offsets. This is a serious concern. Although we support credible offsets as a way to contain costs, we believe the vast majority of reductions in the WCI system should come from the companies covered by the cap-and-trade system. The draft recommendations could be strengthened in a number of ways, including lowering the proposed maximum number of offsets that individual companies can use to meet their targets, adding a system cap on the number of offsets allowed, or setting a minimum price for offsets. Each of these solutions would help ensure that the focus is placed on opportunities to cut emissions within the covered sectors.

While the points above cover our most serious concerns about the draft design recommendations, several additional concerns deserve mention:

1. The WCI's regional goal for emission reductions is insufficient given the need for significant emission reductions in the short term. We recognize that the WCI was not established to set individual state and provincial targets, but we urge all WCI partners to ensure that their short-, medium-, and long-term targets are aligned with the deep reductions demanded by climate change science. (*section 6.4*)
2. Burning biomass is not a zero-emission activity in the timeframe of a 2020 target, because it will take many decades (at least) for replanted forests to recapture the same amount of carbon that was released to the atmosphere from the harvested biomass. We urge the WCI to continue assessing how to best treat the life-cycle emissions from bio-energy opportunities. (*section 1.3*)

3. The WCI needs to place a high priority on developing an adequate transition plan to guard against the potential for leakage of emissions and jobs to non-WCI jurisdictions. This plan will need to account for local communities and economies, while also avoiding potentially negative impacts on developing countries. (*section 8.3*)

We urge you to work with the partners to address all of these concerns within the final recommendations that are due in September. In our opinion, almost all can be addressed within the WCI process to produce a much stronger and more credible regional cap-and-trade system. Failing to do so will result in a final design that is incapable of achieving the deep cuts in greenhouse gas emissions needed to reduce the threat of global warming.

In the event that the concerns above are not fully addressed in the final WCI recommendations, we expect nonetheless to see a comprehensive carbon pricing solution within all WCI jurisdictions by 2010, either independently or jointly with a subset of WCI partners. Doing so will help all WCI jurisdictions start reducing emissions immediately and help position them to be fully prepared for the opportunities presented by a functioning WCI cap and trade system.

We support both cap-and-trade systems and carbon taxes as equally legitimate approaches to implementing an economy-wide carbon price. Within Canada, we note that there has already been some progress toward this goal on a faster pace than the WCI's proposed 2012 start date. For example, Ontario and Quebec have signed a memorandum of understanding that commits them to working on a cap-and-trade system that could be implemented as early as January 1, 2010. British Columbia has also played an important leadership role by adopting a carbon tax this year. Other WCI partner jurisdictions could easily follow suit by committing to carbon taxes in their 2009 budgets, and all partner jurisdictions could use this opportunity to include industrial-process emissions, which are not currently covered by the B.C. carbon tax.

In summary, we see a number of significant flaws in the current WCI design recommendations that will undermine the cap-and-trade system's ability to spur greenhouse gas emissions reductions in participating Canadian jurisdictions and the entire WCI region. Through concerted efforts to strengthen those recommendations ahead of the WCI's September deadline, and a willingness to fill in the carbon pricing gaps where the WCI is not able to move quickly or effectively enough, participating jurisdictions can significantly strengthen the WCI's effort and make progress toward their own state or provincial targets.

Thank you for taking the time to consider these concerns.

Submitted on behalf of:

Climate Action Network Canada
David Suzuki Foundation
Manitoba Wildlands
Pembina Institute
WWF-Canada