Canada's first national emissions trading system proposed

May 23, 2007

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After a history of false starts, in late April the federal government announced its new climate change plan, *Turning the Corner*, which among other things would establish Canada's first, national emissions trading system. The government's *Regulatory Framework for Air Emissions* document describes the proposed air emissions regulations, which are broad and cover greenhouse gas (GHG) emissions and other pollutants.

Among other features, the proposed regulations would set mandatory, intensity-based (i.e., per unit of production) GHG reduction targets for industrial emitters of 18% (relative to 2006 levels) by 2010. Targets would then rise by 2% per year to reach 26% by 2015. On the basis of these revised targets, Canada would not meet its obligations under the Kyoto Protocol of achieving an absolute reduction in GHGs of 6% by 2012, relative to 1990 levels.

The proposed reduction targets would apply to the following major industrial sectors:

- Iron and steel
- Electricity produced by combustion
- Oil and gas (including oil and gas, oil sands, and pipelines)
- Forest products (including pulp and paper, and wood products)
- Smelting and refining (including aluminium and base metal smelting)
- Cement, lime and chemicals production
- Some mining sectors (including iron-ore pelletizing and potash)

Facilities that existed in 2006 would be required to meet GHG reduction targets, while new facilities would receive a three-year grace period. Companies that took "verifiable" action to reduce GHGs between 1992 and 2006 would be eligible for a one-time "credit for early action." These credits would be capped at 15 megatonnes (5 megatonnes in any given year), with eligibility criteria to be developed. Companies could either apply the credits to meet their targets or trade them.

Under the proposed regulations, various tools would be available to help regulated companies meet their reduction targets, including:

- Participating in domestic emissions trading - in a Canada-wide, market-driven "inter-firm trading" system for GHGs, nitrogen oxides (NOx) and sulphur oxides (SOx). Companies that meet their prescribed targets would receive credits they could sell to other companies that exceed their targets. Alternately, credits could be banked for future use.

- Purchasing offsets - by buying credits from projects that result in verified emissions reductions. These credits could be sold to companies to help them meet their targets. The plan contemplates that the offset system would begin "as soon as possible."
- Purchasing credits under the Kyoto Protocol's Clean Development Mechanism (CDM) - by investing in CDM projects in the developing world. Only certain CDM credits (called Certified Emission Reductions) would qualify and they could be applied against up to 10% of a company's total target.
- Making in-house reductions - of up to 5 megatonnes per year during the 2010-2017 period, through improved technology or reduced energy use.
- Contributing to a technology fund - at a starting rate of $15 per tonne of "carbon dioxide equivalent." This could be used to meet up to 70% of a company's target starting in 2010, with the percentage then progressively lowered to only 10% by 2017. The government will also "explore" the idea of "providing credits for certified project investments by individual companies in transformative technology to reduce future emissions."

Significantly, the proposed regulations would not allow Canadian companies to participate in international emissions trading. The Conservative government is opposed to international emissions trading, having repeatedly stated that it amounts to "sending Canadian dollars overseas to buy hot air on the international market." However, opposition parties and many in business favour international trading.

In the coming months, the government plans to meet with its provincial and territorial counterparts, each affected industry sector and other stakeholders to discuss key elements of the proposed regulations. The plan was immediately rejected by the opposition parties and with no significant political support, the content and fate of the proposed regulations are far from certain. However, support from the opposition is not required because the plan would be implemented through regulatory changes only. The government hopes to finalize the air pollutant regulatory framework by fall 2007 and finalize all regulations by 2010.

In addition, it is open to provincial governments to opt for stricter reduction targets. Indeed, it has been reported that Ontario will announce its own green plan on June 11. That plan is widely expected to include stricter GHG reduction targets than the federal plan and to provide support for renewable energy projects. Ontario Premier Dalton McGuinty also recently announced his interest in rallying Canadian provinces to agree on their own national plan to reduce GHGs and to set up an inter-provincial GHG emissions cap-and-trade system.

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