Canadian Climate Policies

Global Carbon Markets and EU ETS

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Overview of Canadian Policies

Portfolio of climate policies similar to that of other Annex I Parties

- Emissions trading for large stationary sources
- Energy/emissions standards for new vehicles, buildings, equipment and appliances
- Support for R&D
- Incentives for alternative transportation fuels

Proposed ETS differs from others in several ways

Proposed ETS

- Covers large industrial emitters and fossil-fired generators (100 kt CO_2/yr)
- Represent 45% of total emissions; 40% of projected reduction
- Intensity allocations (tCO_2/unit of output) 18% reduction from 2006 by 2010, then drops by 2%/yr; future (2020+) transition to absolute cap
- Starts in 2010, emissions peak in 3 to 5 years
- Emissions fall to 20% below 2006 level by 2020 (to roughly 5% above 1990 emissions)

Proposed ETS

- Firms can comply using internal reductions, purchased allowances, domestic offsets credits, contribution to Technology Development Fund, and some types (unspecified) of CDM credits up to 10%
- Contribution to Technology Fund caps price
- Except for possible future links with US and Mexico, no exports of allowances or credits
- Some provinces may implement national ETS
- Monitoring and reporting rules to be developed
- Penalties not specified

Technology Development Fund

- ETS participants can contribute to Technology Development Fund to help achieve compliance
- contribution is C$15/t$CO_2$e until 2012, C$20 in 2013, then rising by rate of growth of GDP
- share of total obligation that can be met by contributions falls from 70% in 2010 to 50% in 2014, then to zero in 2018
- funds used to finance investments in technology and infrastructure deployment with a high likelihood of resulting in greenhouse gas emission reductions soon, such as CCS

Other Federal Policies

Efficiency standards for new vehicles (2011), 27% of reduction

Residential energy retrofits and appliance standards, 7% of reduction

Federal funding of $1.5 billion for provincial actions, 27% of reduction

Canada plans to join the Asia-Pacific Partnership

Provincial Initiatives

British Columbia target of 1990-10% by 2020, 40 initiatives, joined WCRAI (western US states)

Alberta target to cut CO_2e/GDP 50% from 1990 by 2020, ETS starting July 2007 similar to national design, but provincial offsets only

Ontario to close coal-fired generating plants by 2014 (delayed from 2009)

Quebec carbon tax of C$0.008/l gasoline (about €12.50/tCO_2) from October 2007, to raise €140 million/year mainly from transport

Proposed ETS Features - I

Intensity allocation implications

- All allowances issued free; ignores trend to auctions
- Production subsidy effect
  - Reduces the output decline due to imposition of the emissions trading system thus helping trade-exposed industries
  - Higher output means higher emissions, higher marginal emission control costs and lower profits than under an allowance distribution not based on current production.
- Limits options for allocation method when switching to absolute cap

Proposed ETS Features - II

Initial 18% intensity reduction tougher than subsequent 2%/year reductions

- 18% reduction from 2006 in 2012 = 3%/year
- Average for Canadian industry from 1990-2004 = 3%/year
- Fossil fuel CO_2 emissions per constant currency GDP declined more than 3%/year from 1971-2002 for most OECD countries
- Unless large emitters are different, 2%/year, cap becomes less stringent after 2012

Proposed ETS Features - III

Provincial equivalency agreements could fragment the market

- Alberta restricts offsets to provincial sources
- Other provinces might prefer absolute allocations and restrict imports from intensity-based provinces
- Imports may be restricted to encourage payments to provincial funds
- Provincial links with non-Canadian systems may impose restrictions on inter-provincial trade

Proposed ETS Features - IV

Links with other systems may be difficult

- Links with US state/regional/national and possible Mexican systems, but not Annex I Party systems, proposed
- Price cap, stringency of offsets, inter-provincial differences could be barriers to links with any other system; certainly with EU ETS
- Other systems may not want a link; initial RGGI prices forecast to be below US$5/ton CO_2 so link with Canada would raise their allowance and electricity prices

Summary

Structure of proposed Canadian policies similar to that of other Annex I Parties

Intensity allocation differs from other systems:

- Trend to auction
- Avoid production subsidy effects

Initial reduction tougher than subsequent reductions

Provincial equivalency agreements could fragment the market

Links with other systems may be difficult

More Information

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