Senate Standing Committee on Finance and Public Administration
ANSWER TO QUESTION ON NOTICE
Prime Minister and Cabinet Portfolio
Department of Climate Change
Supplementary Budget Estimates Hearing–October 2008

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Topic: Canadian emissions trading scheme
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Question: (Senator Xenophon)
Provide an outline of the proposed Canadian emissions trading scheme.

Answer:
In 2007 the Canadian Government set a domestic target of reducing emissions by 20 per cent from 2006 levels by 2020, and by 60 to 70 per cent of 2006 levels by 2050 (2006 is an easier base year for Canada given recent emissions growth).

The Canadian Government intends to achieve its emissions reductions goals through its ecoACTION initiative, which includes a domestic emissions trading scheme (outlined in – *Turning the Corner: An Action Plan to Reduce Greenhouse Gases and Air Pollution*). ecoACTION also includes grants and initiatives to encourage consumers to conserve energy and reduce emissions, to encourage renewable energy uptake and to develop next generation technologies, the development of mandatory fuel efficiency standards for automobiles (commencing in 2011), action to reduce emissions from rail, marine and aviation sectors and from on-road and off-road vehicles and engines, and implementation of new energy efficiency performance standards.

In contrast to the Carbon Pollution Reduction Scheme (CPRS), the European Emissions Trading Scheme and the New Zealand Emissions Trading Scheme, the Canadian scheme will be a baseline and credit scheme.

For each firm, industry or sector (depending on specific criteria), a baseline would be set at 2006 levels and firms whose emission intensity in a given year is below their target would receive tradable credits equal to the difference between their target emission intensity and their actual. These credits could be banked for future use or sold to other parties. Those whose emission intensity is above their baseline would be required to comply by making use of a number of compliance mechanisms:

- Inter-firm trading;
- Contribution to a technology fund – firms could obtain credits for compliance purposes by contribution to a technology fund, up to a limit of 70 per cent of the target in 2010, falling to 65 per cent in 2011, 60 per cent in 2012, 55 per cent in 2013, 50 per cent in 2014, 40 per cent in 2015 and 10 per cent in each of 2016 and 2017.

No further contributions would be accepted after 2017. from 2010 to 2012, the contribution rate for the fund would be CAD$15 per tonne. In 2013 this would increase to CAD$20 per tonne, with the rate escalating yearly thereafter at the rate of growth of nominal GDP to 2017. A key principle of this fund is that there would be no inter-regional transfer of wealth;

- Access to domestic offsets – the scheme would include domestic offset credits from emissions reductions in sectors outside the scheme. Possible offset projects include landfill gas generation, energy efficiency and projects that store carbon in agricultural land; and

- Access to international credits – firms would have access to Certified Emissions Reductions (CERs) from the Clean Development Mechanism (CDM), limited to 10 per cent of each firm's total target. The Government may also restrict use to only certain types of CERs.

Firms may also receive a one-time credit for early action for verified action between 1992 and 2006 to reduce emissions, up to an economy wide maximum 15 million tonnes.

The Canadian scheme would cover around half of Canada's emissions, including electricity generation (combustion), oil and gas (excluding oil sands, upstream oil and gas, natural gas pipelines and petroleum refining), pulp and paper, iron and steel, iron ore pelletising, smelting and refining, cement, lime, potash and chemicals and fertilizer.

In 2010 existing facilities would be required to achieve an initial emission intensity reduction of 18 per cent from 2006 levels. Every year thereafter, a two per cent continuous improvement in emission intensity would be required. New facilities, which are those whose first year of operation is 2004 or later, would be granted a three year commissioning period before they would face a target – after the third year, new facilities would be required to improve their emissions intensity by two per cent each year. For both existing and new facilities, fixed process emissions (tied to production for which there is no alternative reduction technology) would receive a zero per cent target.

In October 2006, the Canadian Government indicated its intention to move from emissions intensity targets to fixed emission caps in the 2020-2025 period. No further development has taken place, however, the Government has indicated that any decision on the transition to a fixed-cap regime would take into account developments occurring in other countries, especially the United States, with the aim of establishing a North American emissions trading system.