Environment Canada Environnement Canada

Canada

Canada's Regulatory Framework for Greenhouse Gas Emissions

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Judith Hull

Environment Canada

Regulatory Framework for Air Emissions

- An integrated approach to reducing GHGs and air pollutants
  - GHG regulations based on emission intensity targets
  - Air pollutant regulations based on absolute targets
- For GHGs, nationally consistent regulations covering approximately 50% of Canada's emission sources, including
  - electricity produced by combustion
  - oil and gas
  - forest products
  - smelting and refining
  - iron and steel
  - cement, lime and chemicals production
  - some mining sectors
- Other elements of the Framework include fuel-efficiency standards for autos, improved energy efficiency standards, and measures to improve indoor air quality

Timelines

- Work is being undertaken with provinces/territories and other stakeholders to:
  - Finalize short-term emission-intensity reductions targets for GHGs
  - Validate sector-specific air pollutant targets and determine implementation date for the regulations
  - Define the scope and implementation of offsets system, criteria for access to credit for early action and the technology fund
  - Establish the tracking system for tradable domestic compliance units
- Finalize GHG Regulatory Framework by fall 2007 and Air Pollutant Regulatory Framework by spring 2008
- Publish draft GHG regulations by spring 2008 for implementation in 2010
- Revise regulations to incorporate air pollutant provisions for implementation between 2012 and 2015

Industrial GHG emission targets

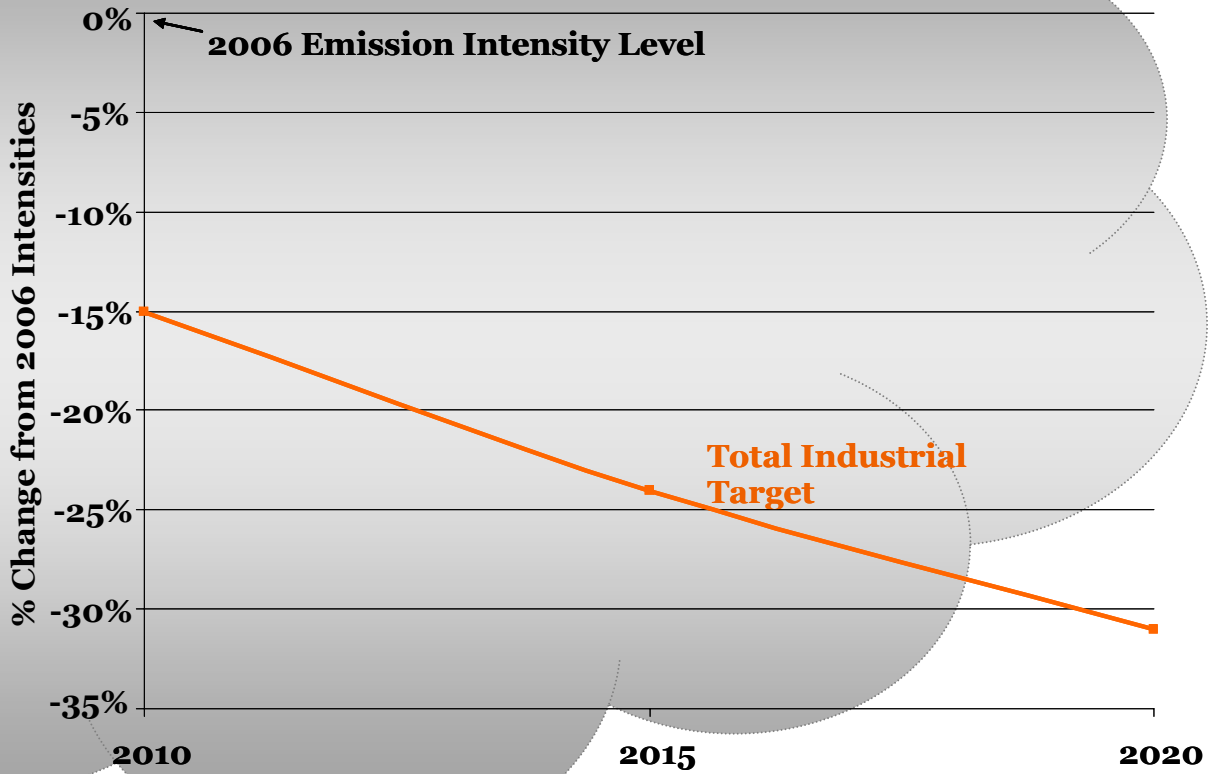
Target

Existing facilities

- 6% improvement each year from 2007 to 2010, giving an enforceable 18% reduction from 2006 emission intensity in 2010
- 2% annual improvement thereafter

New facilities

- 3 year grace period
- Clean fuel standard
- 2% annual improvement



GHG compliance options

Ways to comply

In-house reductions

Climate Change Technology Fund

- Invests in deployment, infrastructure, research and development
- Contribution rate increases and access to the fund decreases over time

Trading

- First time a national GHG emissions trading system established in Canada
- Domestic inter-firm trading
- Access to domestic offsets
- Access to the Clean Development Mechanism at 10% of firms' total target
- Government will also explore other international linkages

Credit for early action of 15 Mt (total)

Domestic Inter-Firm Trading

- ‘Surplus credits’ will be created by regulated entities when their emissions are below their target amount
  - ‘surplus credits’ = (target emission intensity * production) – actual emissions
- Surplus credits will be bankable and tradable
- Unlimited use of surplus credits for compliance

Domestic Offsets

- ‘Offset credits’ will be generated from emission reductions that take place outside of regulated activities
  - Eligible projects must be undertaken in Canada and be incremental and verified
- Offset credits will be bankable and tradable
- Unlimited use of offset credits for compliance
- Proposed that government work with industry to develop pre-approved quantification approaches for use by project proponents

Clean Development Mechanism & Other Linkages

- Certified Emission Reductions (CERs) from the Clean Development Mechanism
  - Eligible CERs will be determined by Government
  - Use limited to 10% of each firm's target
- Government will also explore other international linking opportunities
  - Canada will consider linking with US regulatory-based emissions trading systems (state/regional/national levels)
  - Canada will also consider cooperation on emissions trading with Mexico

Credit for Early Action

- ‘Early action credits’
  - One time allocation of credits to firms covered by the regulations
  - Recognize verified action to reduce GHG emissions between 1992-2006
- Total allocation up to 15 Mt
  - Pro rata distribution if needed
  - No more than 5 Mt of early action credits could be used in a given year

Summary of Tradable GHG Units

1. Surplus credits for regulated entities that do better than their target
   - Bankable
   - Tradable
   - No use restrictions
2. Domestic offset credits for voluntary reductions/removals issued ex-post
   - Bankable
   - Tradable
   - No use restrictions
3. Certain types of Clean Development Mechanism (CDM) credits - Certified Emission Reductions (CERs)
   - Acceptable CDM credits to be defined by Minister
   - Bankable
   - Tradable
   - Access to CDM credits for compliance purposes would be limited to 10% of each firm's target

The tradability of early action credits and technology fund units not yet determined.

GHG Trading

- Domestic GHG market expected to evolve over time from bilateral contracts and trades facilitated by brokers to more exchange-based trading
- Market development will be driven by private sector needs
- Government role
  - Define compliance units and their characteristics
  - Establish domestic credit tracking system and National Registry
  - Facilitate market development (if required)
  - ➢ The government will not buy credits or otherwise participate in the carbon market
- Private sector role
  - Provide brokerage services
  - Operate exchanges
  - Could operate the credit tracking system (with government oversight)