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# ***Eighth Annual Workshop on Greenhouse Gas Emission Trading***

## ***Country Roundtable: Canada***

September 22nd, 2008

Errick (Skip) Willis

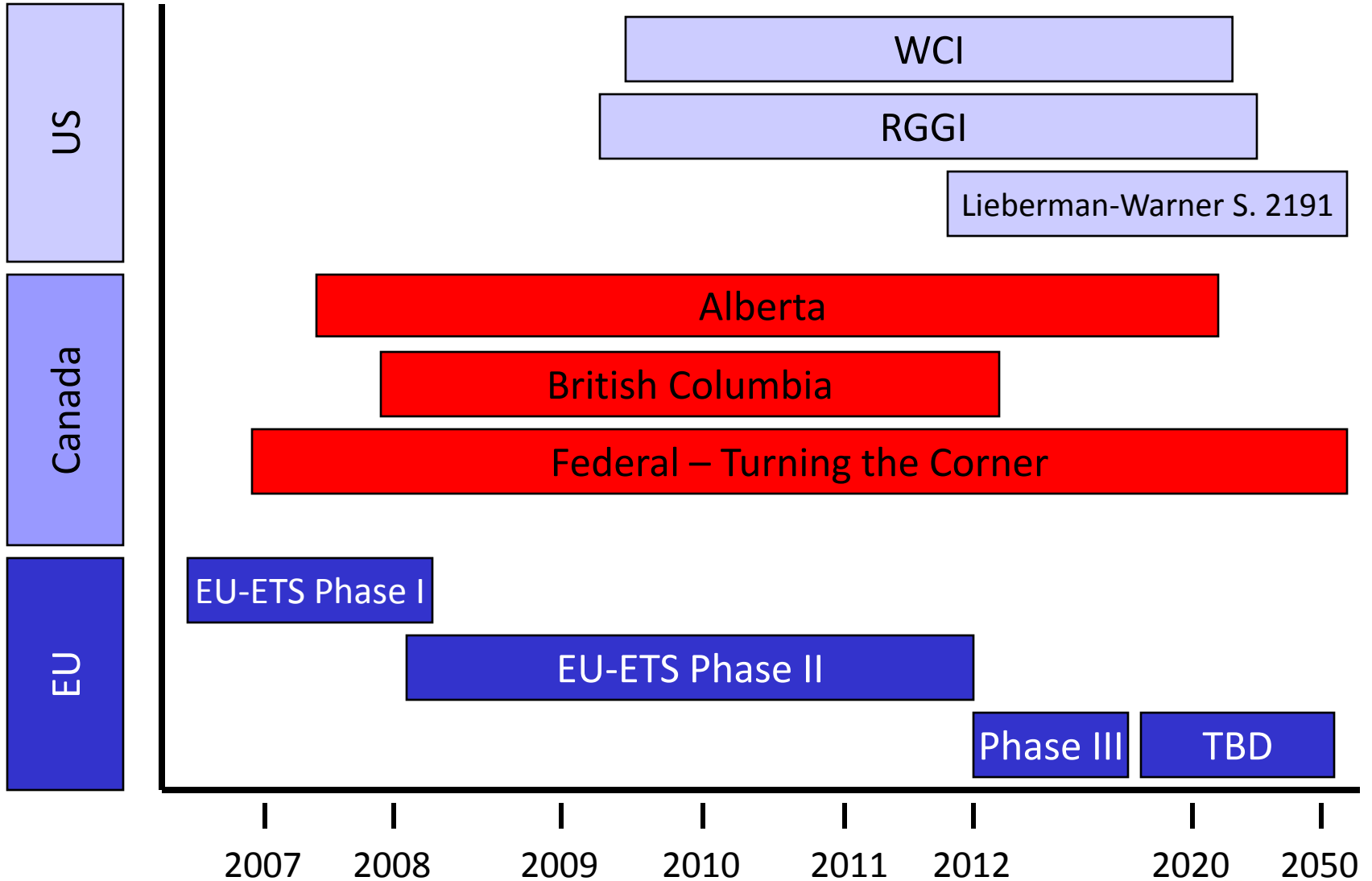


# Framing the Canadian Offset System

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- September 7, 2008: Prime Minister Harper calls a general election; Parliament dissolved
- October 14, 2008: Canadian federal election
- Early polls indicate a shift in public opinion to a potential Conservative majority but it is still early days
- Liberals, under Stephane Dion, continue to take criticism for their Green Shift Plan; it is evaluated in the context of financial market meltdown as an increase in taxes (or a tax on everything)
- Uncertainty persists until the new government is decided

# Regulatory Pipeline for Major Domestic and International GHG Policy



# Turning the Corner – Canada's GHG policy

Headline	<i>Latest Policy Release on August 9, 2008</i>
Targets	<ul style="list-style-type: none"><li>• 10% of emissions can be met by CDM offsets</li><li>• 20% (330 Mt) absolute reduction by 2020</li><li>• 2% EI reduction/yr through 2020; 33% reduction over 11 yrs</li></ul>
Mechanisms	<ul style="list-style-type: none"><li>• Cap-and-trade – bankable, linkage with US system</li><li>• Use of offsets; legislative authority for regs is CEPA 1999</li><li>• All coal and in-situ oil sands upgraders post 2012 must have CCS</li></ul>
Cost	<ul style="list-style-type: none"><li>• \$C15 tCO<sub>2</sub>e rising as tech fund compliance decreases</li><li>• Real GDP impact expected to be between 0 and .4%</li></ul>

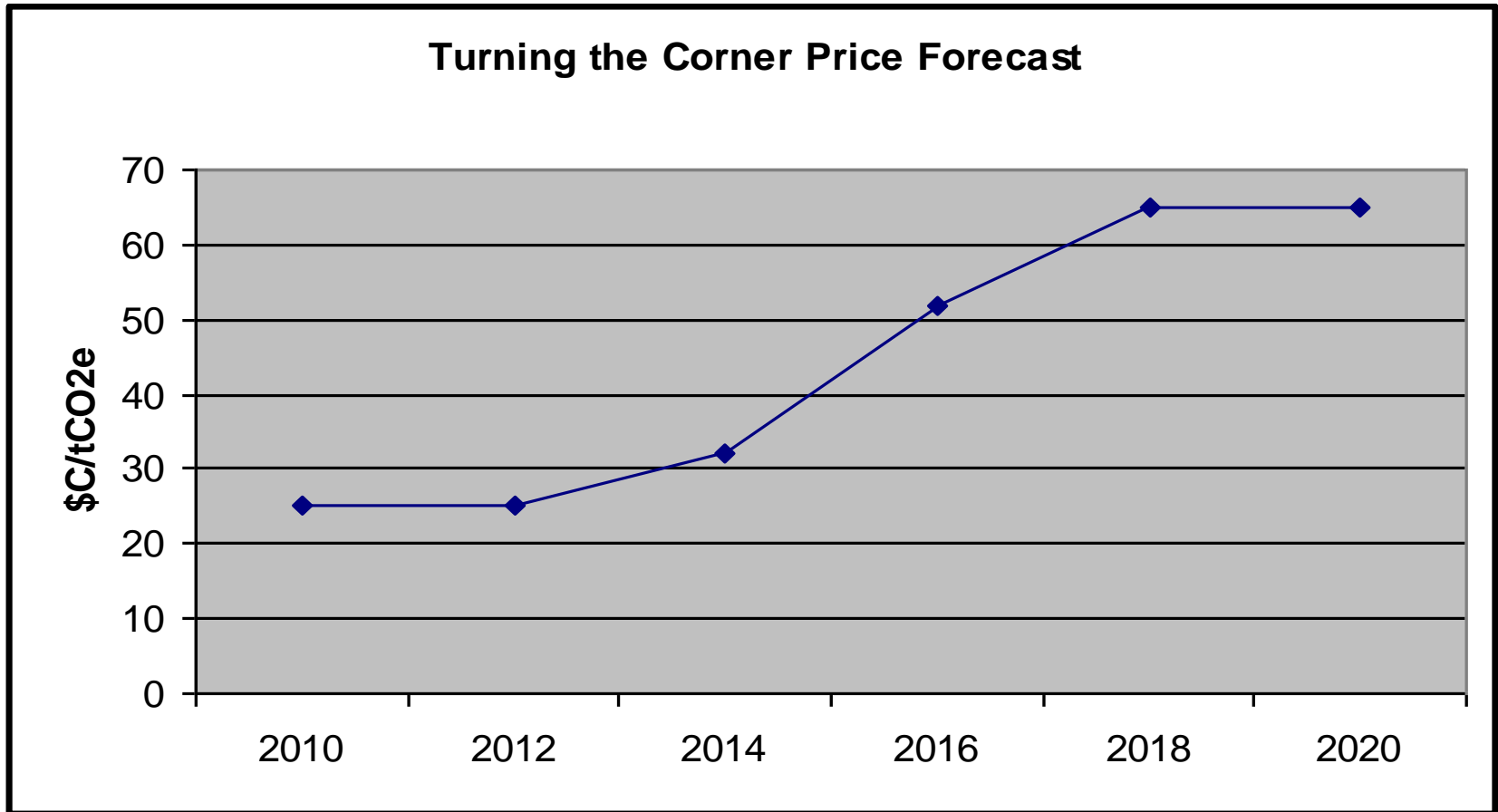
- Clear, coherent climate change policy is beginning to emerge leading towards 2010
- Guide for Protocol Developers provides a clearer sense of potential system requirements, timelines and Eligible offset project types

# Canadian Offset System – Regulatory Update

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- The release of the draft version of *Canada's Offset System for Greenhouse Gases: Guide for Protocol Developers* by Environment Canada (EC) is a critical step in providing stakeholders with a clearer sense of potential system requirements, timelines and eligible offset project types
- It contains a “Proposed Fast Track Eligibility List and Protocol Submission Workplan” of easily adaptable “external protocols” for use in the domestic offsets system
- The Fast Track Eligibility List contains a broad range of protocols selected based on the following criteria:
  - Approved by identified systems (CDM, SGER, NSW, CCAR, etc)
  - Multiple protocols on the list – (a) Closest to ISO 14064-2 or (b) most easily adapted to Canadian Offset System
  - Protocol's activities occur in Canada
  - Protocol's activities not regulated under the Canadian GHG Regs
- EC will focus almost exclusively on these ‘Fast Track’ protocols for the next 6 months and have set a target of having up to 30 protocols approved for use by Q1 2009.
- The expectation is late Q1/early Q2 2009 for approval of protocols; late Q3/early Q4 for the issuance of credits

# Turning the Corner – Forecast Prices



# Provincial and Federal Harmonization: Comparing Design Elements of the Alberta and Federal Systems

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	ALBERTA GHG REGULATION	FEDERAL REGULATORY FRAMEWORK FOR GHG & AIR EMISSIONS
TARGET SECTORS	Alberta ONLY; all large emitters (>100kt)	Major industrial sectors including power
TARGET FOR EXISTING INSTALLATIONS	12% emission intensity reduction	18% emissions intensity reduction by 2010 (below 2006 level); an additional 2%/year reduction thereafter
COMES INTO FORCE	July 1, 2007	January 1, 2010
TREATMENT OF NEW ENTRANTS	Vintage dependent (2000 or later). Grace period with 2% annual reduction to 12% total	Grace period of 3 years plus CFS. CCS standard in 2018
BASELINE	Average intensity of 2003-2005	Emission intensity 2006
COMPLIANCE MECHANISMS	Internal abatement, trading, Alberta-based offset system, technology fund	Internal abatement, trading, federal offsets system, technology fund, credit for early action, CERS
PENALTIES	\$200/tonne; other fines	\$200/tonne

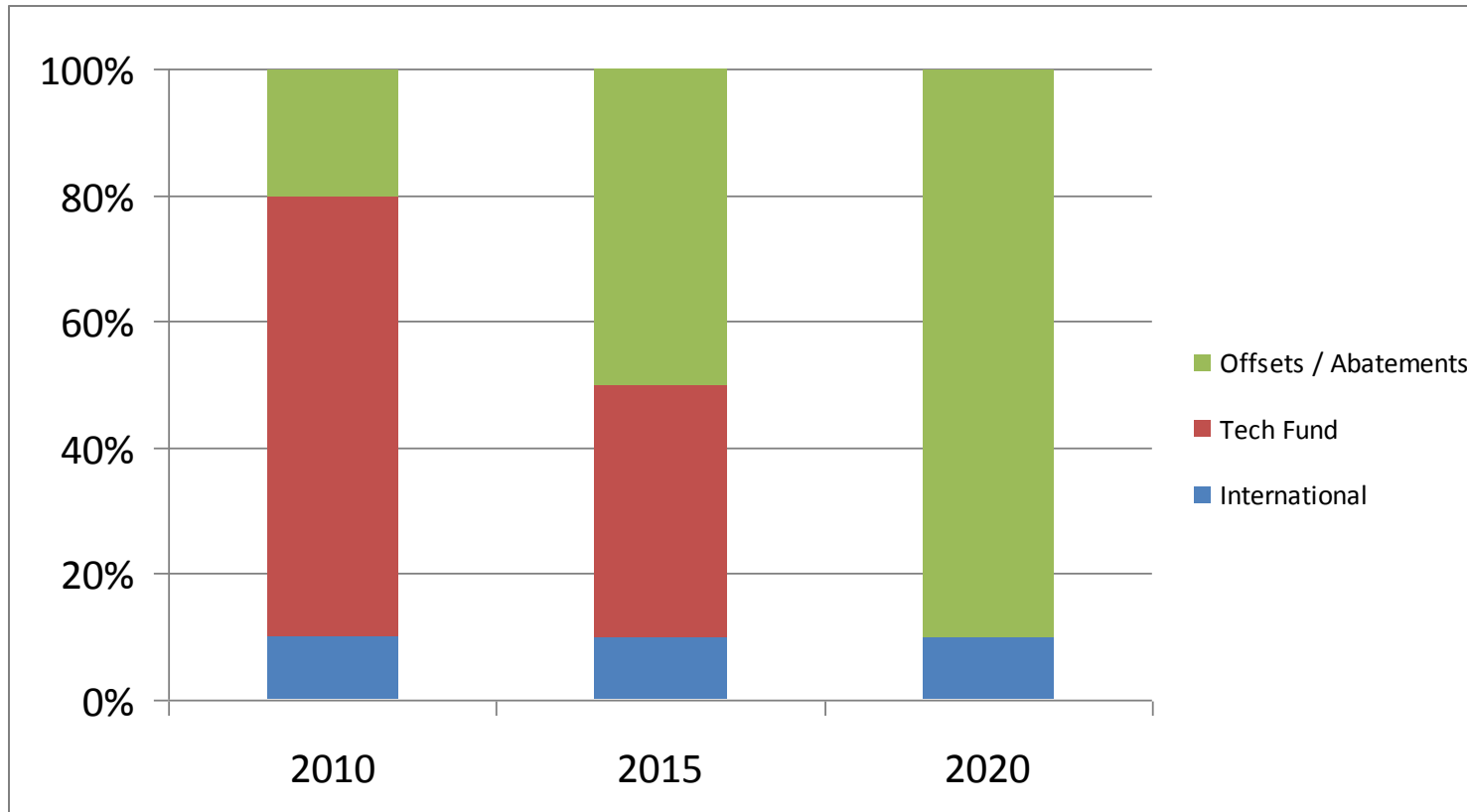
# The Canadian Carbon Market Opportunity

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- Regulation has trailed policy at the federal level. Although the policy intent of the government has been relatively clear for the past 15 months the first posted regulations appeared in August
- It is a virtual certainty that the market will be short in 2010 because EC has limited capacity to process verification reports
- The 'Fast Track' list basically defines the type of projects that could be in a position to issue credits in 2009
- Companies that have stayed abreast of developments know what the issues are and have understood their targets
- Montreal Exchange functioning; financial market not a physical market
- Technology fund as a source of compliance is diminishing



# Use of Compliance Options Changes Over Time



- The Tech Fund is the only element with a fixed price. Beyond that offsets and internal abatement are the only unlimited options and prices in the offsets market will be driven by supply

# Final Thoughts

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- The Canadian offsets market will emerge by the end of 2009
- The Canadian market will look for opportunities to link to the US market which would also imply shifting to a cap and trade system
- Evolution to a cap and trade system probably in place by 2012
- The Canadian Government wants to encourage domestic investment but will look to integrate with international markets on a controlled basis
- It is important to understand the dynamic of the relationship between the federal government and the provinces in terms of establishing jurisdiction over environmental issues
- All politics is local

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