



# Latest Developments in Canada's Climate Change Programme

Climate Change: Risk and Opportunities for the Finance Sector

New York October 23rd

# Outline

- The Clean Air Act
- The Notice of Intent
- An Optimists View
- A Cynics View
- The Political Timetable
- Implications for the Financial Sector

# The Clean Air Act

- Primarily a series of amendments to the CEPA
- Also deals with energy efficiency and motor vehicle fuel consumption standards
- Significantly broadens the scope of previous proposals to include;
  - Criteria air contaminants including PM10
  - Indoor air quality including radon
  - Energy efficiency standards for energy using products including appliances
  - Regulations for all forms of transportation from ATVs to aircraft
- Requires the Ministers to establish air quality objectives and publicly report on attainment
- Penalties are both fines and jail terms

## Notice of Intent

- Primary motivation of government action is human health based
- In the transportation sector the government intends to align with US EPA standards across the full range of on and off road vehicles
  - Motor vehicles to start with the 2011 model year
  - Other engines will be regulated within 12 months
- Regulations to reduce VOCs from various consumer and commercial products and processes
- Energy efficiency standards for previously regulated and unregulated products from dish washers to commercial boilers

# Process and Timeframe to Develop Regulations

- By Spring 2007
  - Decision on the overall regulatory approach
  - Proposed short-term targets for air pollutants and GHGs effective 2010-15
- Summer 2007 to the end of 2008
  - Detailed consultations at the sectoral level including obligations and timelines
- Winter 2009 to Implementation
  - Proposed regulations published in the Gazette no later than fall 2008
  - All proposed regulations finalized no later than the end of 2010
  - In force by the end of 2010 or shortly thereafter

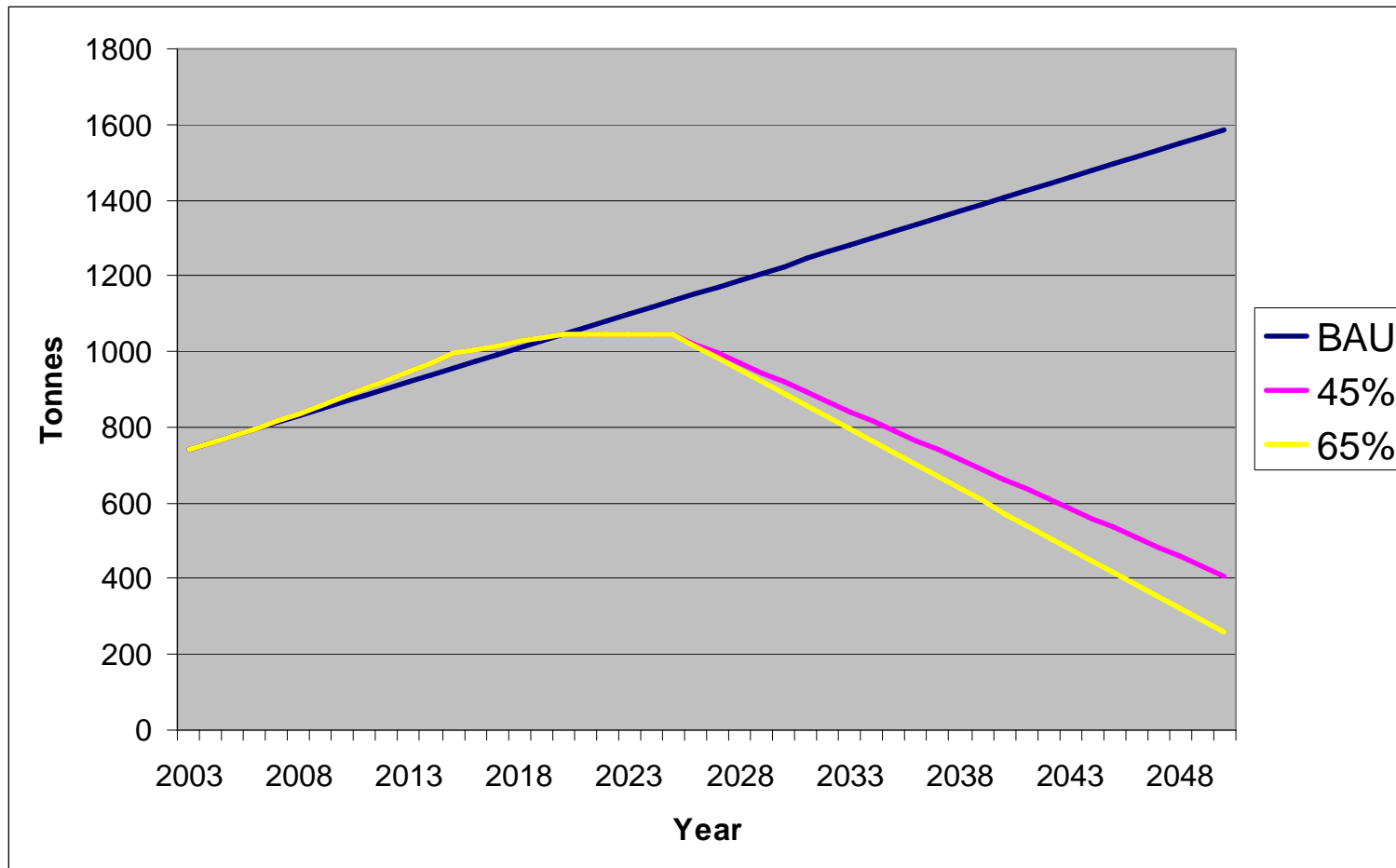
# Principles of Proposed Industry Sector Regulations

- The usual suspects are included
  - Base metal smelters, pulp and paper, cement, fossil-fired electricity generation, upstream oil and gas, downstream petroleum chemical production and iron and steel.
- The key principles guiding the development of the regulations include
  - Reduce emissions from all sectors with a balance between industry and consumers
  - Targets that are consistent with environmental standards and at least as rigorous as the US
  - Incorporate flexible compliance mechanisms including market based mechanisms
  - Reflect the opportunities offered by the capital investment cycle and promote the development and deployment of new technologies
  - Provide regulatory certainty for industry

# Proposed Elements of the Regulatory Approach

- Short-term (2010-2015)
  - Air pollutant target setting based on fixed caps
  - For GHGs intensity based targets that would yield a better result than Project Green and show real progress on the environment in Canada
- Medium-term (2020-2025)
  - Continue to ratchet down air pollutant targets based on fixed caps
  - For GHGs intensity targets that are ambitious enough to lead to absolute reductions during the period and allow the setting of fixed caps
- Long-term 2050
  - Continue to ratchet down air pollutant targets based on fixed caps
  - Achieve an absolute reduction of between 45% and 65% from a 2003 baseline
  - The NRTEE advice on the specific target to be selected and scenarios for achieving it

# What The Clean Air Act Would Mean



# Compliance Options

- The objective will be to provide industry with the flexibility to choose cost-effective options
  - Self supporting industry led market mechanisms
  - Incentives that could award credits for investment in technology such as CCS that result in significant reductions
  - Credit for early action
  - Domestic offsets for reductions outside the regulated system
  - Technology investment fund into which industry and government can co-invest in the development of transformative technologies
- The government wants a one window regulatory compliance tool
- They will work with the provinces to develop a single harmonized system for mandatory reporting
- The government will negotiate equivalency or administration agreements with interested provinces, territories and aboriginal groups

## The Optimists View

- The Act and Notice are broader than anything previous
  - Transport that represents 31% of fuel end use is included
  - Energy efficiency standards are to be tougher although the building code needs to be substantially strengthened
- The suggested targets are meaningful
  - CACs to meet or exceed USEPA standards
  - GHG targets tougher than Project Green (12% improvement in intensity)
  - The 2050 target would be transformative
  - The targets allow for capital stock turnover
- The three big ifs
  - If this government is re-elected with a majority
  - If they follow through with the time table suggested in the Act and Notice
  - If the targets meet the criteria set out in the Notice of Intent
- We can all breathe a little easier

# The Cynic

- In politics a week is a long time and three years is forever
- Following 6 years of consultation the thought of a further 3 years is mind numbing
- This is designed to hoist the issue until after the next election
- The CEPA amendments have significant jurisdictional issues that could be designed to attract litigation that would shift the responsibility for further delay to the provinces
- So far the positive comments have come from industry so they must have been the winners

## The Political Timetable

- This is a weak minority Parliament with the politicians all calculating as to when the best time would be for an election
- The Liberals will have a new leader Dec 2 with appropriate hoopla
- If there isn't an election in the Spring the next opportunity is Spring 2008 because of the Ontario election
- All three Opposition parties have indicated that they will not support the Bill so the votes aren't there.
- The government can proceed on the consultation side without the legislative authority and there will be some 'arm-twisting' around announcements that indicate progress
- The election debate on environmental issues will turn on whether this is seen as a better option than the other guy

## Implications for the Financial Sector

- Given the breadth and depth of the reductions that the government is contemplating environmental risk will become an increasingly important financing consideration
  - This will be far more significant in the medium rather than the short term
  - Adaptation will also be a growing area of analysis and concern
- From a trading perspective if we move to a North American CAC market it will be important to be long in Canada and short in the US
  - There are more low cost Nox and SO2 reduction opportunities in Canada because our standards have consistently been lower
  - This is explained primarily by our power generation mix
  - Alignment will probably necessitate multi-sectoral approaches
- The other significant play is likely to be in environmental technology where targets will drive both technology deployment and innovation

## For Further Information:

**SKIP WILLIS**  
Vice President

**ICF International**  
**277 Wellington Street West**  
**Suite 808**  
**Toronto, Ontario**  
**Canada M5V 3E4**

**Tele: 416-341-0382**  
**Fax: 416-341-0383**

**[ewillis@icfi.com](mailto:ewillis@icfi.com)**

