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

Year

Tonnes

BAU

45%

65%
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
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