

Canadian Federal Government Publishes Details of Air Emissions Regulatory Framework

On April 26, 2006, the federal Conservative minority government released its plan to regulate industrial emissions of greenhouse gases (GHGs) and other air pollutants. The plan, titled the “Regulatory Framework for Air Emissions,” commits Canada to reduce its total GHG emissions by 20% of 2006 levels by 2020. It incorporates elements of Bill C-30 (the proposed *Clean Air Act*), as it emerged from multiparty legislative committee, and elements of the former Liberal government’s plan to regulate the emissions of large final emitters. It would not, however, commit the country to meet its obligations under the Kyoto Protocol to reduce GHG emissions by 12% of 1990 levels between 2008 and 2012. The Conservative government has maintained that this target, though a laudable goal, would have disastrous economic consequences.

Regulated sectors under the plan would include fossil-fuel electricity generation, oil and gas, forest products, smelting and refining, iron and steel, iron ore palletizing, potash, cement, lime and chemicals production. The plan distinguishes between existing and new facilities in these sectors. Existing facilities (i.e., those whose first year of operation was 2003 or earlier) would be required to reduce their emissions intensity by 18% of 2006 levels by 2010, and by an additional 2% in every subsequent year. Newer facilities would not be required to reduce their emissions in their first three years of operations; after that time, they would be required to meet initial emission intensity targets based on unspecified cleaner fuel standards. Following the deadline for achieving those targets, newer facilities would have to reduce their GHG emissions intensity by 2% per year until 2020. “Emissions intensity” refers to a quantity of GHGs released by a facility per unit of production and not to the absolute cap on emissions that the federal opposition parties have advocated.

The plan would require facilities to reduce only those emissions that result from combustion or from a non-fixed process. It would not require reductions in fixed-process emissions – emissions that result from a production process and that cannot be reduced through available technology, like those resulting from calcination in cement production. According to the plan, the exact targets will be formulated in sector-specific regulations, drafts of which would be published in the spring of 2008.

Regulated parties could meet these targets in the following ways:

- First, they could make actual reductions to their emissions intensity;
- Second, they could contribute to a technology fund at a rate of \$15 per tonne of excess carbon dioxide equivalent (CO₂e) from 2010 to 2012. This rate would rise to \$20 per excess tonne in 2013, after which it would escalate annually by the growth rate of Canada’s nominal gross domestic product. The fund is an independent, not-for-profit entity that would be administered by a board of directors composed of industry, government and other stakeholder representatives. It would invest primarily in technology and infrastructure projects that have a high likelihood of reducing GHG emissions. Parties could use credits earned by contributing to the fund to meet up to 70% of their reduction obligations in 2010, though this percentage would decrease incrementally until 2018, when contributions to the fund could no longer be used for compliance;
- Finally, parties could purchase a variety of emissions credits. For example, the federal government would issue emissions reduction credits to each regulated party whose emissions intensity was below its limits for the same year. Parties could bank these credits for compliance in future years or sell them to other regulated parties. The plan contemplates an emissions trading market established by



the private sector to facilitate these sales. Parties could also purchase domestic offset credits, each representing one tonne of verified CO2e reduction or removal achieved by a project that was not otherwise required to make that reduction or removal. Similarly, the plan would allow parties to purchase Certified Emissions Reductions, generated by the Clean Development Mechanism projects undertaken in the developing world pursuant to the Kyoto Protocol, to meet up to 10% of their emissions intensity limits. Finally, the plan would allow a one-time allocation of credits for early action to regulated parties who made verified reductions to their GHG emissions between 1992 and 2006. Early action credits representing a maximum of 15 megatonnes of CO2e reductions could be allocated, though parties could not use credits representing more than 5 megatonnes of reductions to meet their targets in any year

Other than enabling regulated parties to use Certified Emissions Reductions to meet their domestic obligations, the Conservative plan would not currently allow any linkages to other international emissions trading schemes. However, it does contemplate future integration with other regional trading schemes, such as the European Union’s Emissions Trading Scheme and the northeastern U.S. Regional Greenhouse Gas Initiative. For more information, see www.ec.gc.ca/doc/media/m_124/report_eng.pdf.

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