Positioning Ontario within Canada's Greenhouse Gas Reduction Programs

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Ontario's recently announced aggressive new reduction targets are set within Canada's patchwork of greenhouse gas emissions (GHG) reduction schemes. Ontario has yet to reveal how it will meet its new GHG reduction targets, although the province is clear about its intention to implement a new GHG reduction program to reach its goals. The economic and environmental successes of British Columbia and Quebec's provincial initiatives demonstrate that achieving both goals concurrently is possible. According to the United Nations Intergovernmental Panel on Climate Change (IPCC)'s newly released Fifth Assessment Report (AR5), tackling climate change need only trim economic growth rates by a tiny fraction, and may actually improve growth by providing other benefits, such as cutting health-damaging air pollution. AR5 also states that both regional and national actions are required to address climate change.

The path Ontario chooses to meet its GHG reduction targets will have significant impacts on business in the province. On a national scale, however, greater convergence among provincial and federal systems is necessary to ensure that GHG reduction initiatives are better met in the long run.

The IPCC's Fifth Assessment Report

AR5 was released on November 1, 2014. It states that climate change is set to inflict "severe, widespread, and irreversible impacts" on people and the natural world unless carbon emissions are cut sharply and rapidly fall to zero.

According to AR5, both regional and national actions are necessary to fully address climate change. National governments play key roles in adaptation planning and implementation, while local governments and the private sector are critical to progressing adaptation. This is due to "their roles in scaling up adaptation of communities, households, and civil society and in managing risk information and financing".

When it comes to mitigation, AR5 notes that "in principle, mechanisms that set a carbon price, including cap and trade systems and carbon taxes, can achieve mitigation in a cost-effective way, but have been implemented with diverse effects due in part to national circumstances as well as policy design".

Canadian GHG Reduction Systems and the Need for Harmonization

While Ontario can look to other provinces for examples of systems to combat climate change, what cannot be understated is the importance of coordinating the patchwork of schemes into a harmonized system across Canada[i] — a considerable challenge.

Tools used in other provinces to reduce GHG emissions include emissions reporting, carbon taxes, and cap and trade systems. Quebec implemented a joint cap and trade system with California in 2013. British Columbia boasts a successful carbon tax and hopes to implement a cap and trade scheme. Alberta has an emissions trading system in place based on a low carbon price and flexible offsets. Canada's federal government policy objectives have focused on following the U.S. federal government lead.

Jurisdiction	Program	Progress
Federal	♦ GHG emissions information through National Inventory Report ♦ Greenhouse Gas Emissions Reporting Program	♦ Emissions have risen despite GHG emissions reduction commitments for 2020 under Copenhagen Accord ♦ Planned amendments to 4 GHG reducing regulatory initiatives, harmonized with the U.S. ♦ U.S.-harmonized GHG regulations expected for other sectors
Alberta	♦ Facilities required to reduce emissions intensity under *Specified Gas Emitters Regulation*	♦ 2020 and 2050 GHG emissions targets may be difficult to meet ♦ New Premier acknowledged need for revamped plan to reduce GHG emissions
British Columbia	♦ Targets set under *Greenhouse Gas Reduction Targets Act* ♦ Carbon tax established under *Carbon Tax Act* ♦ Framework for cap and trade system under *Greenhouse Gas Reduction (Cap and Trade) Act* ♦ Emissions reporting under *Reporting Regulation*	♦ No cap and trade system yet, but plans to harmonize with other WCI jurisdictions ♦ Carbon tax deemed an economic and environmental success, but some problems expected
Ontario	♦ Emissions reporting under *Greenhouse Gas Emissions Reporting Regulation*	♦ 2020 and 2050 GHG emission reduction targets set ♦ Likely to announce carbon pricing system by end of 2014
Quebec	♦ Cap and trade system, linked to California, under the *Regulation respecting a cap-and-trade system for greenhouse gas emission allowances* ♦ Carbon tax established under the *Regulation respecting the annual duty payable to the Green Fund*	♦ Cap and trade system 2nd compliance period begins January 1, 2015 ♦ California and Quebec joint auction of allowances to take place November 19, 2014 ♦ Stricter climate program targets than California

On August 29, 2014, Canada's Premiers agreed to move forward with a national energy strategy. They noted the recent statement by the Organization for Economic Cooperation and Development (OECD) on the importance of incorporating the cost of carbon emissions in the economy. Given the ever-changing international context, the Premiers agreed on the importance of being aware of the various emission reduction initiatives, ranging from cap and trade systems to carbon pricing and innovations, such as clean coal and other technologies. They agreed to take stock of such climate change initiatives and the economic opportunity of global action to address climate change at each of their future summer meetings. In spring 2015, Quebec will host a summit on climate change to which all Premiers will be invited.

What follows is a snapshot of the state of Canadian GHG emissions reduction programs and a forecast as to what may lie ahead in Ontario's strategy.

Ontario

Existing Legislation

Ontario's *Greenhouse Gas Emissions Reporting Regulation* requires large industrial GHG emitters to report emissions. Under the Regulation

- all prescribed facilities emitting 25,000 or more tonnes of carbon dioxide equivalent per year (tCO_2e/year) are required to report, and
- facilities emitting more than 10,000 and less than 25,000 tCO_2e/year are encouraged to report voluntarily.

Proposed New Reduction Targets

Ontario's Ministry of the Environment and Climate Change (MOECC) addresses key priorities from Premier Kathleen Wynne's mandate letter in its Climate Change Update 2014. MOECC objectives include achieving 2020 and 2050 GHG reduction targets and ensuring that such efforts are integrated in the policies of other Ontario ministries.

Ontario's target for 2020 is to reduce GHG emissions to 15% below 1990 levels, and for 2050 to achieve emissions that are 80% below 1990 levels. The province's recent closure of the last coal-generating plant is an important step in achieving the ambitious targets.

Moving Forward on GHG Emission Reduction

Ontario is likely to announce a carbon pricing system by the end of the year. Ontario thus has an opportunity to establish links between sectors and jurisdictions. Many are predicting the province will adopt a cap and trade system linked to Quebec and California. Ontario has indicated its reluctance to implement a carbon tax,[ii] but it is not "off the table".

Quebec

Quebec implemented a cap and trade system in 2011 under the *Regulation respecting a cap-and-trade system for greenhouse gas emission allowances*, pursuant to section 46.5 of Quebec's *Environmental Quality Act*. Quebec hopes to reduce GHG emissions to 20% below 1990 levels by 2020. The province linked its program with California in 2013 under the Western Climate Initiative (WCI), to bring flexibility and efficiency to the schemes.[iii] Quebec and California are vying to recruit Ontario to join their cross-border cap and trade system.

Quebec also has a carbon tax, introduced in 2007, with the *Regulation respecting the annual duty payable to the Green Fund*. The regulation applies to all oil and gas companies on all non-renewable fuels sold in bulk to retailers.

MOECC plans to work with Quebec to push for climate change initiatives to play a greater role in the Canadian Energy Strategy.

Cap and Trade

Quebec's cap and trade system entails three compliance periods. The first compliance period began on January 1, 2013 and covers about 80 industrial and power facilities emitting annual GHGs equal to or greater than the annual threshold of 25,000 tCO_2e. The second and third compliance periods will also include fuel distributing business operators in Quebec.

Progress Report

Quebec's climate program target is stricter than California's target. In 1990, California's GHG emissions were about 14.2 metric tonnes per capita; Quebec's emissions were about 12.1 metric tons per capita. Both California and Quebec generate emissions from transportation and industry. However, Quebec's electricity generation is virtually emissions free because of the province's reliance on hydropower. Quebec has lower emission reduction potential than California, with correspondingly higher reduction costs. Quebec will have to be stringent with its reductions if it expects to reach its reduction goals predominantly through the transportation and industry sectors.

Since 2013, Quebec's cap and trade system has faced several challenges—there are few buyers in Quebec, free allocation is generous, movement on the market is limited, offset potentials are small, and emitters have taken a passive approach.[iv] During the first auction in December 2013, only a third of the 2013 allowances and a quarter of the 2016 allowances were sold at the $10.75/t floor price. Demand for carbon allowances soared at the March 2014 auction, however, where allowances cleared at the $11.39/t floor price. Quebec sold 98.7% of the more than one million 2014 vintage allowances and 84.2% of the 1.5 million 2017 vintage allowances. California and Quebec have announced a joint auction that will take place on November 19, 2014. The joint auction will mark the complete alignment of the two markets and establish a uniform price for both sets of allowances.

British Columbia

B.C.'s *Greenhouse Gas Reduction Targets Act* establishes targets for reducing the province's GHG emissions to 33% below 2007 levels by 2020 and 80% below 2007 levels by 2050.

Carbon Tax

B.C. implemented its *Carbon Tax Act* in 2008, setting the tax rate at $10 per metric tonne of carbon dioxide (tCO_2). The tax increased by $5 per tonne annually until it reached $30 tCO_2 in 2012. The rate is translated based on the type of fuel to account for different amounts of GHG emitted upon burning different fuels. A key challenge in designing a tax is ensuring that subsequent changes to the tax in response to environmental outcomes and mitigation costs remain sufficiently predictable.

All revenue generated from the tax is returned to taxpayers through tax reduction credits. To avoid double taxation, the tax plan includes an exception for emissions that will be covered under other climate action policies, such as a possible trading scheme.

B.C.'s *Greenhouse Gas Reduction (Cap and Trade) Act* provides the framework to set up a market-based cap and trade system. While the province does not currently have an emissions trading system in place, it anticipates harmonizing with other WCI jurisdictions. The *Reporting Regulation* under the *Greenhouse Gas Reduction (Cap and Trade) Act* requires B.C. facilities emitting more than 10,000 tCO_2e/year to report emissions, and emitting 25,000 tCO_2e/year or greater to submit third party verified reports.

Progress Report

B.C.'s tax policy has been judged to be an economic and environmental success. Since the tax came in, fuel use in B.C. has decreased by 16% and B.C.'s GDP is the highest in Canada. The province boasts the lowest personal income tax rate in Canada and one of the lowest corporate rates in North America.

Nevertheless, B.C.'s carbon price ceiling at $30 tCO_2 is expected to create some problems

- the carbon tax revenues and emissions will increase
- the value of offsetting tax reductions will grow faster than the carbon tax revenue, creating an expanding revenue gap
- the carbon tax will become increasingly regressive without an expansion of tax credits.[v]

Alberta

Options for Companies to Meet Targets

Alberta requires facilities that emit more than 100,000 tCO_2e/year to reduce their emissions intensity by 12%. Under Alberta's *Specified Gas Emitters Regulation*, companies have four ways to meet these reduction targets

- make improvements to their operations
- buy Alberta-based offset credits
- contribute to the Climate Change and Emissions Management Fund that funds GHG emission reducing projects
- pay $15 for every tonne of GHG above their allowed limit.

The low price on carbon and flexibility of options for companies exceeding targets make it challenging for the province to achieve its GHG reduction goals. By 2020, Alberta hopes to reduce GHG emissions by 20 megatonnes and by 200 megatonnes by 2050.

Awaiting Reform

Other than putting a price on carbon through its *Specified Gas Emitters Regulation*, Alberta has avoided implementing a meaningful strategy to reduce GHG emissions in the province. The new Premier has acknowledged that a revamped plan is necessary.

Federal

Canada files GHG emissions information through a National Inventory Report as required under the United National Framework Convention on Climate Change (UNFCCC). Emission reporting is required for facilities that emit more than 100,000 tCO_2e/year. Under the Copenhagen Accord, the federal government committed to a 17% reduction in GHG emissions below 2005 levels by 2020 for Canada's economy as a whole. Despite these efforts, emissions have risen and are projected to rise further.[vi]

In March 2004, the Government of Canada announced the introduction of the Greenhouse Gas Emissions Reporting Program (GHGRP). The GHGRP applies only to the largest industrial GHG emitters in Canada. All facilities that emit the equivalent of at least 50,000 tCO_2e/year are required to submit a report.

Upcoming Changes in GHG Regulation

The Canadian government announced regulatory initiatives at the United Nations Climate Summit in September. Canada plans to harmonize with the U.S. through four GHG reducing regulatory initiatives to

- amend the *On-Road Vehicle and Engine Emission Regulations* and the *Sulphur in Gasoline Regulations* to bring Canada's permissible levels of emissions from light vehicles and sulphur content in gasoline in line with U.S. Tier 3 standards
- further regulate fuel efficiency for post-2018 model year heavy-duty vehicles
- publish a Notice of Intent in line with recently proposed U.S. hydrofluorocarbon regulations to reduce and limit these potent GHG emissions.

On October 8, 2014, Canada published the finalized *Regulations Amending the Passenger Automobile and Light Truck Greenhouse Gas Emission Regulations* developed in collaboration with the United States Environmental Protection Agency (U.S. EPA). The amended Regulations establish more stringent annual fleet average GHG emissions standards from 2017 to 2025.

Canada is also expected to release U.S.-harmonized GHG regulations for other sectors, including oil and gas, iron and steel, fertilizer manufacturing, fossil fuel-directed electricity generation, cement, chemical, and pulp and paper.

The extent to which the Canadian economy is integrated with that of the U.S. is an important external factor influencing Canadian climate change decisions. In creating climate legislation, Canada avoided adopting a climate policy more stringent than that of the U.S. to avoid economic repercussions. Canada's withdrawal from the Kyoto protocol in 2011 was in line with the U.S. lead.

Other Considerations and Challenges for Canada

Current GHG Emissions Reduction Shortfalls

The Report of the Commissioner of the Environment and Sustainable Development, published on October 7, 2014, found that Canada is not on pace to meet its emissions reduction targets. The report notes that

- regulations to reduce emissions have been delayed and good practices have not been consistently followed
- departments are not yet assessing the success of current regulatory measures
- Environment Canada is not coordinating with the provinces and territories to achieve the national target
- Environment Canada does not have a planning process for how the federal government will contribute to achieving the national target.

Anticipated Upcoming Reforms

The federal government is expected to make an announcement on new GHG reduction legislation in its run up to the next election. The announcement may address Canada's continuing lack of oil and gas regulations and lack of cohesiveness among provincial action plans.

Conclusion

While the economy has been a major reason for the federal government's reluctance to take action, the economic and environmental successes of B.C. and Quebec's provincial initiatives have demonstrated that achieving both goals concurrently is possible. The IPCC's recently released AR5 suggests that tackling climate change need only trim economic growth rates by a tiny fraction, and may actually improve growth by providing other benefits, such as cutting health-damaging air pollution.

For Canada's patchwork of climate policy to meet global needs, it will need to find commonalities and linkages in the various provincial policies and across sectors. Canada, provincial and territorial jurisdictions will need to do so in short order. As the U.N. secretary general, Ban Ki-moon stated at the launch of AR5, "Science has spoken. There is no ambiguity in the message… Leaders must act. Time is not on our side."

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[i] See Douglas Macdonald, Jochen Monstadt & Kristine Kern, Allocating Canadian Greenhouse Gas Emission Reductions Amongst Sources and Provinces: Learning from the European Union, Australia and Germany (Toronto: University of Toronto Press, 2013). This recent report highlights the value of coordinating federal and provincial efforts. It attributes Canada's failure to develop an effective climate change strategy to (a) the weakness of the intergovernmental system to coordinate a harmonized policy and (b) the Canadian government's failure to address disproportionately high reduction costs in some provinces.

[ii] Ontario, Ministry of the Environment, Greenhouse Gas Emissions Reductions in Ontario: A Discussion Paper on the Environmental Registry, (Ontario: Queen's Printer, 2013). The discussion paper states that Ontario is not considering a carbon tax.

[iii] Larger diverse markets often have more mitigation opportunities and correspondingly lower mitigation costs, making them more economically efficient than smaller emission trading markets.

[iv] Under cap and trade systems, regulators establish aggregate emissions caps for a group of polluters and allocate the right to emit a specific amount of pollution over a period of time. Polluters can obtain offset credits and trade allowances based on market prices. Participants from the covered industries may be eligible for allowances, which can either be allocated for free or auctioned. Allowances correspond to a specified unit of emission, usually a tonne of carbon dioxide. The idea is that each year the regulatory agency will reduce the number of allowances available (i.e., the cap) until the desired emission level has been reached.

[v] Lee, Marc. *Fair and Effective Carbon Pricing: Lessons from BC*. Canadian Centre for Policy Alternatives and Sierra Club BC, 2011.

[vi] In September 2014, the United Nations Climate Change Summit in New York, at which Canada was present, set the stage for a critical climate change meeting in Lima, Peru, in December 2014. The Lima meeting will be in preparation for the ultimate climate change meeting in Paris in December 2015.