CANADIAN CLIMATE CHANGE POLICY

HARVARD PROJECT ON CLIMATE AGREEMENTS
RESEARCH WORKSHOP

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ABOUT IETA

- Collective business voice on market solutions to tackle climate change
- Non-profit association, representing 150+ members globally
- Global partnerships and offices across all major jurisdictions
- Supports market design, policy engagement and “thought leadership”
- Two decades of experience – 2019 markets IETA’s 20th Anniversary!
CANADIAN GHG CONTEXT
Per Capita Greenhouse Gas Emissions By Province (2017)
CANADIAN GHG CONTEXT
CANADIAN POLITICAL SNAPSHOT
Dramatic Shift in Provincial Leadership (2015 vs. 2019)
FEDERALISM IN CANADA
Two (2) Constitutionally Autonomous Levels of Government

Federal Government – Responsible for enacting and implementing laws for the whole country. Provided with its own constitutional powers and jurisdictions, which it may exercise independently from the provincial level of government.

Provincial Governments (10) – Enact and implement laws within their particular provincial territory. Provided with their own constitutionally recognized powers, which they may exercise independently from the federal government. Power held by provincial heads of government (Premiers and Cabinets) and provincially-elected legislature.
CONSTITUTION & DIVISION OF POWER
Constitution Act, 1867 – Relevant Highlights

- **SECTION 91** – areas of sole federal power and jurisdiction to legislate
  - Trade and commerce, military, shipping, criminal law etc.
  - Broad taxation power (direct and indirect)
  - Peace, Order and Good Government (POGG Clause - important!)

- **SECTION 92** – areas of sole provincial power and jurisdiction to legislate
  - Municipal institutions, property rights, electricity etc.
  - Confines provinces to only direct taxation to raise revenue

- **SECTION 95** – concurrent powers with shared fed-prov jurisdiction
  - Agriculture, immigration
  - Natural resources (largely provincial jurisdiction)

- **SECTION 132** – federal government power to implement treaties
PROVINCIAL CARBON PRICING LEADERSHIP
Driven by Federal Vacuum on Climate Policy Action

- **ALBERTA**
  - (2017) Carbon Levy on Fuels (since repealed)
  - (2019) Carbon Levy Repealed + Market Transition CCIR to TIER

- **BRITISH COLUMBIA**
  - (2008) Carbon neutral government

- **QUEBEC**
  - (2007) Provincial carbon tax on fuels
  - (2013) Provincial cap and trade covering power/industry
  - (2014) Links market to California - Western Climate Initiative (WCI)
  - (2015) Broadens to economy-wide market, covering fuels
PROVINCIAL CARBON PRICING LEADERSHIP
Earlier Policy & Market Fragmentation Challenges

EARLIER CHALLENGES:
- Different GHG reporting and assurance systems
- Different approaches to GHG modeling and forecasts
- Different market registries and tracking systems
- Different compliance unit recognition (not fungible across borders)
- Different compliance profiles and competitiveness impacts
- Different offset protocols, eligible project types and criteria

RESULTS:
- LACK OF POLICY HARMONIZATION & COHERENCE
- INEFFICIENT FOR BUSINESS OPERATING ACROSS CANADIAN BORDERS
- INEFFECTIVE FOR NATIONAL CLIMATE REPORTING-ACTION
PAN-CANADIAN FRAMEWORK (2016)
Emergence of National Climate Action Plan with Sub-National Support

Pricing carbon pollution
Complementary mitigation actions across all sectors
Adaptation and climate resilience
Clean technology, innovation & jobs

Government of Canada
CANADIAN COUNCIL OF MINISTERS OF ENVIRONMENT
FEDERAL-PROVINCIAL CLIMATE COOPERATION & PROJECT TEAMS

- Common Quantification - GHG Data, Reporting, Modeling
- Common GHG Reporting & Assurance
- Common GHG Offsets and Enabling Fungibility
- Common Approaches to Preserving Competitiveness
- Common Vision & Approaches to International Cooperation (ITMOs)

- Remains a strong focus on aligning Canadian policy efficiencies and costs while building cohesive Fed-Prov climate governance

- 2019 Launch of Canadian Clean Growth & Climate Change Institute
FEDERAL CANADIAN LANDSCAPE
NDC = Absolute GHG Reduction of 30% below 2005 by 2030

- Pan-Canadian Framework on Clean Growth & Climate Change (2016)
  - Mix of 20+ policy measures
  - Efficient, broad carbon pricing across *all* jurisdictions
  - Need for international carbon markets (lower costs)

  - Provinces with minimum and scaling GHG price standard
  - Provinces with cap and trade in line with NDC reduction target

- Federal Hybrid Carbon Pricing BACKSTOP (GGPPA, 2018)
  - Carbon levy on fuel consumption and heating fuel
  - Output-Based Pricing System on large emitters (>50kt)
  - Focus on competitiveness (OBPS) and fairness (carbon rebates)
APPLICATION OF FEDERAL BACKSTOP
Greenhouse Gas Pollution Pricing Act (GGPPA, 2018)

- Under the Greenhouse Gas Pollution Pricing Act the federal “backstop” system has two parts:
  - Regulatory charge on fuel – will apply starting in April 2019 in ON, NB, SK, and MB; and in July 2019 in YT and NU
  - Regulatory system for large industrial facilities – the federal Output-Based Pricing System or OBPS – will apply starting January 1, 2019 in ON, NB, MB, PEI, and partially in SK; and in July 2019 in YT and NU
OUTPUT-BASED PRICING SYSTEM (OBPS)
Brief Overview of Federal Carbon Market System

- OBPS applies to (>50kt) industrial facilities in Backstop Jurisdictions
  - Facilities facing competitiveness and trade-exposure concerns
  - Eligible Voluntary Opt-In (10-50kt)
  - 290 entities currently registered under OBPS

- Compensation obligation for emissions beyond performance standard
  - 80 OBS for 30 sectors and sub-sectors
  - Better than the standard, rewarded through Surplus Credits
  - Surplus credits can then be sold on to buyers

- Multiple flexible compliance options:
  - Pay excess emission charge ($20/t in 2019, increasing to $50/t in 2022)
  - Remit Surplus Credits from industrial facilities that beat their standard
  - Remit Recognized Units (eligible provincial offsets)
  - Remit Federal Offset credits
  - A combination of the above
Overview of Key Sections of OBPS Final Regulation (June 2019)

**Introductory**
- Definitions (1), Reference documents (2)

**Application**
- Covered facility (3)
- Covered activities (4)
- Responsible person (5)
- Ceasing to be covered facility (6-7)
- Compliance period (8-9)

**Reports**
- Facility report (10)
- Verification report (11)
- Report format and updates (12-13)

**Quantification**
- Emissions, production, heat transfers (14)
- Carbon storage (15)

**Facility’s GHG limit**
- Calculation of limit (16)
- Calculation of OBS for some facilities (17)
- Temporary approach for new facilities (18)

**Compensation assessment**
- Assessment of emissions vs. limit (19)
- Emissions above limit (20-23)
- Emissions below limit (24)

**Compliance units**
- Expiration of units (25)
- Units issued in error (26-27)
- Units from other jurisdictions (28)

**Errors and omissions**
- Requirements and reports (29-30)
- Change in obligation (31)

**Other provisions**
- Recordkeeping (32)
- Submission of reports (33)
- Request for confidentiality (34)

**Schedules**
- Sch 1: List of output-based standards
- Sch 2: Details on verification report
Discussion Paper published on 28 June
Seeks input on key federal offset system design elements

Proposed Design Elements Cover:
- Offset Protocols & Project Types
- Market Infrastructure (Registries)
- Aggregation
- Verification
- Reporting & Crediting Periods
- Tracking Systems
- Non-Regulated Market Participants
- More...
Federal Greenhouse Gas Offset System under development
- Announced in 2019 Budget for implementation and staff
- Developed as a regulation under GGPPA 2018

System being developed in close coordination with provinces
- Non-Backstop Provinces with existing carbon markets
- Ottawa entering MOUs with BC, Alberta, Quebec (Recognized Units)
- Supporting coordinated market registry-tracking systems

Aim of Federal Offsets System is to:
- Support creation of offset credits across Canada
- Focus on projects/activities not covered by carbon pricing
- Increase supply of compliance units available to covered facilities
- Enable unit fungibility across borders
KEY CANADIAN CLIMATE MILESTONES
What to Watch (2019-2020)

- Canadian Federal Election
  - 21 October 2019
  - Climate Change and Carbon Pricing = main election issue
  - Composition of Parliament (Minority, Majority, Coalition?)
- Constitutional Challenges to Federal Carbon Pricing Legislation
  - Provincial-Federal Legal carbon pricing battles continue through 2020
  - Supreme Court Hearing scheduled for 5 December 2019
- Supplementary Federal Measures – Future Interactions
  - National Clean Fuel Standard (CFS)
- Policy Signals and Action on Article 6 (ITMOs)
  - Post-election and pre-COP25 announcements expected
- Canadian & International Engagement Impacts
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