SASKATCHEWAN CHAMBER of COMMERCE

SUBJECT: Climate Change

SUBMITTED BY: Environment Committee

BACKGROUND

The Fourth Assessment Report of the United Nations Intergovernmental Panel on Climate Change was released in 2007. It confirmed the Panel's agreement that climate change is anthropogenic, and that strong measures should be taken to counteract this. The Fifth Report will be issued in 2014, and will confirm this again.

The "Conference of the Parties" (CoP) to the United Nations Framework Convention on Climate Change (UNFCCC) developed an agreement to limit GHG emissions to replace the Kyoto Protocol. The CoP produced the 2009 "Copenhagen Accord," signed by the U.S., China, Brazil, India and South Africa, with Canada expressing support. The new Accord agreed to limit the rise in global average temperature from 1990 to 2ºC by 2050. GHG emission reduction targets for developed countries and mitigation actions for developing countries are to be submitted for the Accord. The agreement included measures and funding to reduce deforestation, and is to be reassessed by 2015 to determine whether the goal should be tightened to limit temperature rise to 1.5ºC. At the recent CoP meeting, the U.S. indicated that it would insist that all major emitters execute GHG emissions reduction plans for the Copenhagen Accord.

The U.S. had previously announced their target of 17% below 2005 levels by 2020. The US Environmental Protection Agency (USEPA) issued GHG emissions reporting rules for those emitting 25 kilo-tonnes per year (Kt/a) or more. USEPA also completed its determination that GHG emissions are a danger to human health and the environment. Although court challenges continue, USEPA is now proceeding to issue Permits and require controls for new facilities for GHG emissions, particularly for power plants.

The Government of Canada has expressed its intent to promulgate regulations for GHG emissions controls under the Canadian Environmental Protection Act (CEPA). Under CEPA, GHG emissions reporting is required in Canada for those emitting 100 Kt/a or more. New CEPA regulations will impose new emissions reductions and cost obligations on major emitters in Canada, beginning with coal-fired power plants. Provincial involvement could be allowed through equivalency agreements under CEPA. Canada has now committed to follow what the U.S. does.

Alberta and Quebec have legislation to control GHG emissions. BC and Quebec also have "carbon taxes" on fossil fuels. Saskatchewan has tabled legislation which calls for a 20% reduction in GHG emissions from 2006 levels by 2020, and enables a research and development fund under the control of the Province for compliance. The Government of Saskatchewan had signed an Agreement in Principle with the federal government to negotiate an equivalency agreement under CEPA, so that the province

can administer climate change controls. The legislation is expected to be revised to align provincial GHG emissions reduction targets with federal changes.
Four Canadian provinces and seven U.S. states are part of the Western Climate Initiative (WCI), which seeks a GHG emissions cap-and-trade system. (Saskatchewan is an "Observer" in WCI.) California, the leader in WCI, issued its GHG emissions control rule which affects about 600 industrial plants, to reduce emissions to 1990 levels by 2020. WCI member Arizona withdrew support for cap-and-trade; however, California and Quebec have proceeded and held auctions of "allowances" for their programs.

ISSUE

Governments must address the issue of climate change by means other than flawed international agreements and/or national programs that do not consider trade implications. The Copenhagen agreement does not yet have firm participation by the major emitters at comparable levels. All major trading partners competing in Canadian markets, must bear comparable and concurrent GHG emission reduction obligations.

Performance requirements for Saskatchewan's energy-intense, trade-exposed (EITE) industry sectors must not force uncompetitive compliance cost or technology obligations that competitors do not face. Saskatchewan's industry competes for both markets and investment, especially within North America. Canadian climate change policy compatibility with the United States is required to maintain competitive balance on trade and investment, and to avoid either country imposing new border measures that would adversely affect two-way trade and investment patterns. However, a "cap-and-trade" system may have a high burden cost to operate the trading system.

Energy-intense industries will face additional cost pressures domestically from GHG regulatory costs being passed through by energy producers and other input providers. Because commodity prices are driven by global competitive factors, producers cannot pass-through additional costs to customers. The regulatory conditions need to make allowances for these increased input costs, to enable Saskatchewan industry to compete on a comparable basis in North America and globally. Obligations negotiated under the UNFCCC need to avoid "carbon leakage," which has negative environmental and economic consequences. To reduce the threat of carbon leakage and achieve trade neutrality, regulations need to make allowance for direct and indirect emissions/compliance costs for EITE sectors. These include "free allowances" and compensation for energy pass-through costs.

Workable, affordable, robust compliance options (including offsets) must be available. Regulations need to allow for fixed process emissions that cannot be reduced with current technology. It would also be appropriate to recognize the net benefits of GHG-reduction attributable to the use of recycled materials in business operations, in the form of credit for recycled content of feedstock. Regulations must fully recognize the early actions taken by Saskatchewan industries.

The United States has committed billions of dollars toward research, development, and implementation of energy efficiency technologies to ensure that country's competitiveness. China has also announced large investments in alternative energy supplies and energy efficiency. Governments in Canada have taken little action to provide broadly effective energy efficiency improvement programs. Substantive efforts are needed on transportation, and for small and medium-sized enterprises.

Our federal government has indicated that, "Over the last three fiscal years, Canada provided $1.2 billion in fast-start finance to support climate change action in Africa, Asia and Latin America and the Caribbean." Canada should instead spend that $1.2 billion on improving energy efficiency in Canada, improving our own performance first, which would reduce GHG emissions and improve our productivity and competitiveness

Focusing on energy efficiency, alternate energy supplies, and perhaps carbon capture and sequestration, are key to addressing this issue. Short-term reduction requirements and programs should be based upon maximizing energy efficiency and incentive-based programs to improve our efficiency and competitiveness.

RECOMMENDED

1) That the Government of Canada spend the moneys currently earmarked for foreign climate change projects on improving energy efficiency in Canada instead.

2) That Saskatchewan Chamber of Commerce members strive to improve, and governments support incentives for, business energy efficiency and conservation to reduce our emissions and remain competitive internationally, and that this program be pro-actively managed. Incentives programs should include a focus on small and medium sized commercial enterprises and municipalities.

3) That the federal and provincial governments establish one consistent scheme in Canada for GHG emissions reductions targets, baselines, controls and pricing.

4) That governments in Canada ensure that their GHG emissions reduction targets and controls are consistent with and not more stringent than those in the USA.

5) That governments in Canada ensure that their GHG emissions reduction targets and control systems include measures to address EITE sector impacts, both with respect to border measures and special allocations for GHG emissions.

6) That the Government of Canada continue to make no further commitments under the UNFCCC without the inclusion of all of the major emitting and trade partner nations to making comparable GHG emissions reduction commitments.

7) That in revising emissions reduction plans, Canada and Saskatchewan should base their policies on energy efficiency, support the development of economically viable non-carbon-based and alternate energy supplies, recognize and provide credit for early

action, and develop a realistic plan and targets to reduce GHGs using longer-term technology changes.