

review

NEWS FROM THE NATIONAL ROUND TABLE ON THE ENVIRONMENT AND THE ECONOMY

Emissions Trading and Climate Change: *What are the options?*

How can emissions trading assist Canada in meeting its climate change goals? What kind of trading system will best address the concerns of environmentalists, business and the public? These questions were on the table on September 18, when the NRTEE assembled a multistakeholder expert group in Toronto to assess options for a domestic emissions trading program for greenhouse gases. Emissions trading is a mechanism that offers emitters both the flexibility and the incentive to meet environmental objectives at a lower cost than would result from using only prescriptive regulations.

The work is intended to inform public debate and to provide input into the national process exploring implementation of the Kyoto Protocol to the United Nations Framework Convention on Climate Change, which Canada signed in April 1998. If the Protocol is ratified, Canada will have made an international commitment to reduce its greenhouse gas emissions to 6 percent below 1990 levels, over the period 2008-2012. Meeting the Kyoto challenge will not be easy — current projections are that Canada's emissions will be 19 percent above 1990 levels by the year 2010.

A domestic emissions trading system would be a key component of Canada's

action plan to implement the Kyoto Protocol. It would address the differing costs of reducing emissions by providing firms that have low-cost emission reduction options with incentives to exceed requirements because they could sell the surplus reductions to other sources. At the same time, firms with high-cost emissions reduction options would be encouraged to buy surplus reductions from other sources if it is cheaper than reducing

NRTEE's Greenhouse Gas Emissions Trading Program analyzes alternative trading approaches, identifying design issues that are likely to be contentious within each approach, developing options, and assessing the strengths and weaknesses of each. The Program will also describe the necessary implementation steps and identify the stakeholders needed to accomplish this task.

The September meeting built on work completed over the summer, specifically the preparation of background papers describing six different emissions trading systems. These papers evaluate the systems according to a number of criteria, such as economic efficiency, equity and technical, political and administrative feasibility. The papers also suggest possible ways to address ten key design issues related to domestic emissions trading systems (e.g., the distribution of trading allowances by auction, legislative authority for regulation, and the implications of international trade agreements).

Credit Trading Systems

There are two types of emissions trading systems, credit trading and allowance trading. A credit trading system permits trading of "pollution ►



emissions within their own operations. Emissions trading is an important policy option because all reductions in greenhouse gas emissions will have a global impact on climate change — regardless of where they occur.

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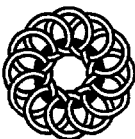


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reduction credits" which companies earn by reducing their emissions below an agreed-upon level. These companies can then sell their credits to firms requiring credits to remain in compliance with emissions limits. One of the key factors differentiating credit trading systems is whether or not a voluntary or regulatory framework is used as the incentive to purchase credits.

Under a voluntary approach, companies are motivated to voluntarily purchase emission reduction credits in order to:

- enhance their corporate image;
- meet a voluntary target, such as a commitment under the Voluntary Challenge and Registry;
- forestall a future mandatory commitment or regulation; or
- get a "head start" on meeting an anticipated mandatory regulation.

Under a regulatory approach, governments implement a series of mandatory performance standards, such as energy efficiency standards, to limit emissions and allow firms to use credit trading to reduce the cost of compliance. Sources that find compliance costly can comply by purchasing emission reduction credits from other sources.

Allowance Trading Systems

The second type of trading system is an allowance trading system. Allowances are allocated among sources on an annual basis and those with surplus allowances at the end of the year can sell them to companies requiring additional allowances to remain in compliance.

Allowance trading systems can be differentiated in several ways:

- the number of emissions sources participating in the program;
- whether purchase of emissions reduction credits is permitted from sources outside the allowance trading system; and
- whether allowances are allocated to the sources emitting greenhouse gases, or to the producers, exporters and importers of the substances that ultimately produce the emissions.

Governments may establish emissions caps and allocate allowances to electric utilities, large industrial sources, large

transportation companies and petroleum refineries. Trading may either be "closed" — i.e., restricted to other sources in the allowance trading system — or may permit trading among sources not covered by the emissions cap, including reduction credits produced by other sources in Canada or in other countries permitted under the flexibility mechanisms of the Kyoto Protocol.

Another type of "open" trading system could encompass a much broader range of emissions sources, including emissions produced by federal, provincial and municipal government sources.

Alternatively, an open trading system could place an emissions cap on the carbon content of the fossil fuels sold in Canada, rather than allocating allowances to greenhouse gas emitters. In such a system, producers and importers would have to hold allowances equal to the carbon content of the crude oil, natural gas, coal and petroleum products sold in Canada. Exporters would receive allowances equal to the carbon content of the fossil fuels exported.

Next Steps

In a third phase of the project, the multi-stakeholder team will conduct a thorough assessment of the detailed designs, including their administrative requirements, and potential environmental and economic impacts. The results of this initiative will feed into the broader national process, which will culminate in decisions being made in late 1999. ☉

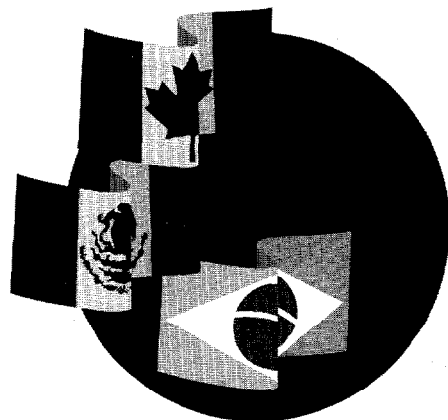
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LEAD Canada Hosts Regional Session of the Americas

In August, 50 delegates from Brazil, Mexico and Canada met in Vancouver for a week-long training session on regional integration challenges and sustainable development. Hosted for the first time by LEAD Canada, the session was part of LEAD's second Regional Session of the Americas. The LEAD program is administered by NRTEE, with funding provided by the International Development Research Centre (IDRC).

Participants explored a range of economic and environmental challenges facing North and South America, including labour issues, the role of public participation in civil society, and the use of market instruments to encourage sustainability. In addition to participating in leadership and presentation workshops, Associates took part in a day-long case study of the forestry sector which included visits to the MacMillan Bloedel



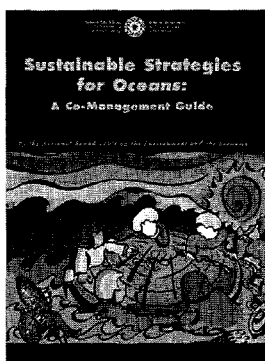
The overall goal of the LEAD Canada program is to foster a new generation of decision makers who recognize the need to develop the earth's resources in a sustainable manner.

Chemainus Sawmill and an old growth forest in Cathedral Grove Provincial Park.

The overall goal of the LEAD Canada program is to foster a new generation of decision makers who recognize the need to develop the earth's resources in a sustainable manner. LEAD Canada provides leadership skills development and training in environmental issues to Canadians from a variety of backgrounds, who are between the ages of 30 and 45.

Stemming from the Vancouver meeting, a committee of Associates will work with LEAD International to organize a "Lead Forum of the Americas." The Forum will address a range of issues such as the Free Trade Agreement of the Americas, which is currently under negotiation. The committee's objective is to ensure that sustainable development issues are addressed during the negotiations and included as part of the final agreement.

For more information about LEAD Canada, contact Donna Chiarelli, LEAD Canada Coordinator, NRTEE, (613) 995-7519, Fax (613) 992-7385. ☉



Sustainable Strategies for Oceans: A Co-Management Guide

By the National Round Table on the Environment and the Economy

Bounded on three sides by oceans, Canada has the longest combined coastline of any nation in the world. But our oceans and coastlines are threatened. The dumping of waste — from oil drums and nuclear waste to ship ballast and garbage — is fouling the ocean environment.

Over-fishing has exhausted fishing grounds that once seemed a limitless source of wealth. Urban sprawl and poor industrial practices disturb natural drainage patterns and coastal ecosystems, while climate change caused by the accumulation of human-produced carbon dioxide and other greenhouse gases will likely cause fluctuations in ocean temperatures and sea levels.

The NRTEE's contribution to The Year of the Oceans, *Sustainable Strategies for Oceans: A Co-Management Guide*, outlines the diagnosis for Canada's ocean resource, and sets out the principles behind co-management — a collaborative approach which draws together the expertise and experience of a variety of stakeholders, including resource users, environmentalists and representatives from all levels of government.

Available in English and French.
1998, 85 pp., ISBN 1-895643-72-4
\$15.95, plus postage and tax

\$2 from the sale of each Guide will be donated to the Youth for the Oceans Foundation.

The NRTEE, in partnership with the International Year of the Ocean Secretariat, has produced a poster version of the *Sustainable Strategies for Oceans: A Co-Management Guide* cover. This colourful 18.5" x 24" poster is an ideal vehicle for individuals, schools and institutions to promote ocean co-management. For a free copy of the poster, please call the NRTEE order line at (613) 947-7287.

Program Update

- The **Sustainable Transportation Program** is planning to release a *Backgrounder* on urban sustainable transportation in late November.
- The final report from the **Eco-Efficiency Program's** feasibility study is expected in the winter.
- The **Education Program** hosted a training workshop aimed at professional engineers on September 25, in Quebec City. This practical and interactive workshop was part of the 1998 Environmental Colloquium, an event that was co-sponsored by the regional chapter of the Quebec Order of Engineers and the province's environment ministry.
- The **Education Program** will soon be releasing an annotated bibliography promoting the integration of sustainability principles into core curricula at Canadian business schools.

- The **Foreign Policy Program's** *The Sustainable Cities Initiative: Putting the City at the Centre of Public-Private Infrastructure Investment* was distributed at the "Winning in Global Infrastructure Markets: Solutions Through Partnership" conference, held in September (see insert).
- **LEAD Canada's** Cohort 7 has recently returned from its first international session, which was held in China. Over the two-week period, the Associates visited Xi'an, Yan'an, and Beijing. The international session brought over 170 Associates together from the 12 LEAD chapters. The theme of this international session was the global freshwater challenge.
- **LEAD Canada** will begin accepting applications in January 1999 for the upcoming Cohort 8 training cycle. All applications must be received by May 1, 1999. For more information, please contact Donna Chiarelli at (613) 995-7519. ☉

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Goes Electronic

The NRTEE newsletter, *Review*, will soon be available via e-mail. Please let us know if you would like your name added to our electronic mailing list: admin@nrtee-trnee.ca.

On the Web

Find out more about the NRTEE's programs, publications and upcoming events by visiting our World Wide Web site at:

<http://www.nrtee-trnee.ca>

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ISSN 1200-0442

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