

# Climate Change Policy Update

## Climate Policy at Canada's 150<sup>th</sup> Birthday

Over 50 policy experts gathered in Montreal at the end of March to put forth a vision that confronts the challenges facing Canada as it steams towards its 150<sup>th</sup> birthday in 2017. [Canada at 150: Rising to the Challenge](#), was touted as a non-partisan conference hosted by the Liberal party. One of the conference's themes focused on the intersection of energy, the environment and the economy.

Three major messages emerged from the hour-long discussion: the need for a carbon price; Canada's position in the world relative to green technology; and, the need for a national environmental strategy that includes the development of the oil sands. The panel session, titled [Clean Energy and Canada's Potential in a Low Carbon World](#), can be watched online.

Carbon pricing was seen as a foundational policy consideration. A price on carbon would encourage business executives to install energy-saving technologies and processes to return value to shareholders while reducing emissions. Prudent homeowners would also respond to the incentives delivered through carbon prices. Whether the pricing vehicle should be a carbon tax or a market mechanism like cap-and-trade wasn't explicitly discussed, though it was said that most experts agree a tax is the most transparent, straightforward, and consistent policy lever that could be supplemented with complementary policies.

In terms of national strategies, the panelists saw the federal government playing a serious role both in making Canadian policy compatible with American rules and managing interprovincial disparities in geography, resources, and historical infrastructure. Waiting for the US to act was seen as economically irresponsible because in waiting, Canada would lose its time-sensitive competitive advantage in green technology, and because other global business competitors are moving ahead so quickly. Also, American investment in renewable energy is some [18 times greater](#) than Canada's **per capita**, suggesting that rather than waiting for the US to catch up, Canada is already falling behind.

Technology development was seen as the lynchpin to competitiveness in the burgeoning green technology market. Aligning with developing giants like China was seen as a major opportunity for Canadian business, not only in low carbon technologies, but also other environmental fields like water purification and waste management.

Overall, the panel presented an informative but unsurprising account of what Canada must do to keep pace and thrive in an increasingly competitive green landscape. What remains to be seen is how these policy ideas will be translated into platform planks in the coming months.

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## Recent Provincial Actions

Ontario's lieutenant governor David Onley delivered the [Speech from the Throne](#) on behalf of the government that outlined the province's priorities over the next session. The theme centered on opening Ontario to new ideas, people and investment. Onley stated that Ontario will "transition to a new, clean economy" and asked for federal climate leadership and a partner in Ottawa that would "recognize and fund Ontario's green revolution...just as it is funding carbon-sequestration research in other provinces."

The [BC 2010 budget](#) was released and included commercially oriented

climate investments. The budget referenced the province's 18,000 jobs in clean technology and the \$2 billion clean tech contributes annually to the BC economy. Over \$135 million from the budget is devoted to clean energy development and energy efficiency programs.

Nova Scotia also released its 2010 budget. The [budget speech](#) advertised the province's ambitious renewable energy target of 25% by 2015, which they say is the most aggressive standard of any jurisdiction in North America. It will also invest \$24 million in energy conservation and programs for energy efficiency.

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## Petition could Derail California Climate Legislation

Where California leads, America often follows. But the golden state has been losing its shimmer as it has shed jobs, and unemployment woes are being played in an attempt to suspend California's climate legislation.

A [petition](#) to suspend the state's Global Warming Solutions Act of 2006 ([Assembly Bill 32](#)) is being circulated by an anti-tax group called the [California Jobs Initiative](#), and is funded mainly by three Texas-based oil companies. [Valero Energy Corp.](#) has given \$500,000 and [Tesoro Corp.](#) and World Oil Corp. have each given \$100,000. Their support for the petition likely reflects their belief that suspended Californian legislation would have a knock-on effect on a national climate regime, whose implementation would likely result in higher costs for oil producers and refiners.

Assembly Bill 32 is considered to be a significant piece of legislation that seeks to return California's greenhouse gas emissions to 1990 levels by 2020, and that initiates a state-wide cap-and-trade system in 2012. The bill is pivotal for California's participation in emissions trading through the Western Climate Initiative (WCI), and is also considered to be a driving force behind federal greenhouse gas regulations. Its suspension would cripple California's climate leadership, and would be a setback for the WCI.

Signatures from the petition are also being collected members of the hyper-libertarian Tea Party, whose opposition to the

legislation was seen last year when 10,000 "Tea Party Patriots" converged on the capitol demanding an end to "eco-tyranny" by retracting the climate change bill.

If enough petition signatures are collected, a referendum will be held concurrently with November's gubernatorial election, when the new Governor of California will be chosen. The ballot question would ask Californians if they wanted the state to "abandon the implementation" of its 2006 Global Warming Solutions Act until unemployment stays at or below 5.5% for a year. Unemployment in the state is currently [hovering](#) at about 12.5%.

A [poll](#) conducted in mid-2009 showed that support for action on climate change in California had slipped to 66% from 73% a year earlier, and that 46% of Californians supported delaying the implementation of climate legislation until the economy and state budget improved, up from 36% the year before. Since then, California's unemployment rate has climbed even higher. When the bill was passed in 2006, unemployment was at 4.8%.

It is likely that petitioners will collect the 434,000 signatures required to launch the plebiscite on the 2006 Global Warming Solutions Act. The outcome of a vote, and the opinions of a new state governor, will likely affect the WCI and impact a national climate change framework.

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## US Environmental Protection Agency Releases Several Updates

**GHG Regulation of New and Modified Sources:** The Environmental Protection Agency (EPA) released a [final rule](#) March 29<sup>th</sup> indicating that it will phase in greenhouse gas emissions control requirements for new and modified stationary sources starting Jan. 2<sup>nd</sup>, 2011 at the earliest. The final tailoring rule may be completed as early as the end of the April.

**Oil and Gas GHG Reporting:** Three new GHG reporting rules affecting the oil and gas sector were proposed in March. These build on the EPA reporting rules finalised in October 2009, which covered upstream suppliers of petroleum products, natural gas, and natural gas liquids, and downstream sources involved in petrochemical production and petroleum refinement. The three new rules apply to oil and gas facilities emitting over 25,000 tonnes/CO<sub>2</sub>e annually; carbon sequestration facilities; and facilities producing fluorinated gases that emit over 25,000 tonnes/CO<sub>2</sub>e annually. The public comment period on the proposed rules opened April 12<sup>th</sup> and extends through June 11<sup>th</sup>. Comments may be submitted at <http://www.regulations.gov>.

**New Light-Duty Vehicle GHG Emissions Standards and Corporate Average Fuel Economy Standards:** The EPA and the Department of Transportation jointly announced a final rule on April 1<sup>st</sup>, 2010 that establishes new fleet-wide [emissions standards](#) for passenger cars, light-duty trucks, and medium-duty passenger vehicles, covering model years 2012 through 2016. Vehicles will be required to meet an estimated combined average emissions level of 250 grams of carbon dioxide per mile, or the equivalent of 35.5 miles per gallon (MPG) fuel economy standard by 2016.

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## US President Reaches Out

In an attempt to gain bipartisan support for wider climate and clean energy legislation, US President Barak Obama has opened up [vast swathes of ocean](#) off the Atlantic coast and eastern Gulf of Mexico for offshore drilling as well as opening the seas off of northern Alaska for oil and gas prospecting. He said the move is part of a “broader strategy” to reduce dependence on foreign oil and increase a domestic clean energy supply. His broader strategy likely includes the passage of clean energy legislation.

Obama has also extended [loan guarantees](#) worth \$8.33 billion for the construction of two new nuclear power plants, touting it as a piece of the puzzle for increasing the supply of low-carbon energy. “To meet our growing energy needs and prevent the worst consequences of climate change, we’ll need to increase our supply of nuclear power. It’s that simple,” Obama said.

The moves are seen as a pragmatic way to gain bipartisan support for forthcoming climate and energy legislation. The passage of the landmark healthcare bill has opened up a legislative window. And with the approach of midterm elections in November, Obama is keen to further his clean energy and climate agenda before the vote reorganizes the House and Senate, likely in favour of the Republicans.

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## What We're Learning from Europe's Cap-and-Trade Scheme

Greenhouse gas emissions in the European Union are falling faster than anyone expected, and the EU Emissions Trading Scheme continues to teach the world about how a carbon market really works. There are rumblings that it could even be time to tighten the cap and launch the continent towards a schedule of even deeper GHG reductions.

In 2009, GHGs from large emitters in Europe's heavy industry and power sector fell by 11%, following on from a 6% reduction in 2008. Over 10,000 heavy industrial emitters and electricity generators are covered by the Emissions Trading Scheme (ETS), a central piece of policy architecture enabling continent-wide reductions. The cut is partly attributed to a fall in industrial output and commercial activity due to the recession, but is also a result of industry's investments in carbon-saving equipment and improved efficiency. Industry's emissions fell by 18% while the power sector's fell by only 8%. That left industry with about 30% more permits than it needed, representing nearly €2.4 billion (C\$3.2 billion) at recent carbon market prices, but left the power sector's emissions higher than allowed.

These greenhouse gas figures leave Europe with a range of options. They are already more than half way to their goal of a 20% cut in emissions by 2020, and still have a full decade to go.

Some are suggesting that Europe tighten its caps to minimize continuous over-allocation and avoid slumping carbon prices. Moving from a 20% cut to something like a 30% cut by 2020 would achieve this. Tougher targets could also represent a "concessionary" carrot up the sleeve of European negotiators as they press for more aggressive global action at December's UN Climate Change Conference.

Critics point out that tightening caps following a recession could slow Europe's return to growth. It could also be used as fodder for industrialists to press for quid pro quo treatment by demanding looser caps during economic boom times. However, proponents of cap tightening suggest that it will catalyze greener expansion when economic growth returns, putting Europe in an even more competitive global position. Additionally, cap tightening will continue to incent green investments and continued efficiency improvements. As it stands, the financial incentive to develop and invest in more advanced GHG controls is dwindling with a glut of permits in the market. Tightening the cap will keep the cost of permits high enough to encourage continued green R&D, commercialization, and investment. Tighter caps might even give further credence to those seeking protectionist trade policies through import tariffs on goods from countries with less stringent GHG rules. The wider the carbon disparity between Europe's products and, say, China's, the more reasonable a border adjustment on carbon-intense goods appears. Moreover, proponents assert that the whole point of the EU ETS is to achieve an environmental outcome, specifically GHG reductions, and tightening the cap would accelerate that agenda.

The European experience continues to offer insights to other regions looking at implementing a cap-and-trade system. Firstly, despite protestations from industry, it seems that achieving GHG reductions from this sector might be easier and less expensive than initially forecast, as is evidenced by a significant and continuous over-allocation of permits. It should be noted that Europe has put substantial time and resources into complementary policies and programs that facilitate low carbon industrial technology transition, and that the recession accounts for a portion of decreased emissions. Nevertheless, significant industrial reductions are possible.

Conversely, the power sector has struggled to keep pace with scheduled emissions reductions although the sector's emissions continue to fall. Lessons could be drawn from countries like Germany, Denmark, Spain and the UK. Their policies and programs have shown continental leadership through large increases in renewable power generation, but differences in each country's approach offer evaluative lessons to other countries on efficacy and cost.

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