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Chair

Mr. Alan Tonks

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● (1105)

[*English*]

The Chair (Mr. Alan Tonks (York South—Weston, Lib.)): Good morning, *bonjour, mes amis*, members of the committee and our witnesses today, and to those who are watching the proceedings. Welcome to the committee.

We are here again pursuant to Standing Order 108(2) to undertake a study on Canada's implementation of the Kyoto Protocol. Today we will focus on part 1, entitled "Setting the Stage: The Current Situation."

We're very pleased that you have come to interact with the committee. Today we have Michael Cleland, chair of the Energy Dialogue Group and also president and chief executive officer of the Canadian Gas Association. Also with the EDG we have Hans Konow, president and CEO of the Canadian Electricity Association, and Denis Tanguay, Quebec Energy Efficiency Association.

As well we have representatives from the Canadian Chamber of Commerce. Nancy Hughes Anthony is its president and chief executive officer, and Scott Campbell is the policy analyst. From the Pembina Institute we have Matthew Bramley, who is director with respect to climate change. And from the Ontario Centre for Environmental Technology Advancement we have Ed Mallett, its president and CEO.

Welcome to all of you. Again, thank you for being here.

The procedure we use usually gives about ten minutes for a presentation. I do understand that the Energy Dialogue Group and the Canadian Chamber of Commerce have submitted briefs, which have been distributed. The one from the Pembina Institute came in this morning and is being distributed. Also, we have a CD from Ed Mallet's organization, and I thank him for sending it in.

I don't know if there's any particular order for the presentations. If there isn't a preference, perhaps we could just start at the top of our witness list, which would be Mr. Cleland, representing the Energy Dialogue Group. Then we'll go down the list with the Chamber of Commerce, the Pembina Institute, and then the Ontario Centre for Environmental Technology.

All right, you may proceed, Mr. Cleland.

Mr. Michael Cleland (President and Chief Executive Officer of Canadian Gas Association; Chair, Energy Dialogue Group): Thank you very much, Mr. Chairman.

We do, as you mentioned, have a presentation that's in your materials. I plan to leaf through it, and I will endeavour to keep it to about ten minutes. I'll go reasonably quickly, and as the conversation proceeds afterwards, we might want to refer back to some of the pictures in the presentation.

The Energy Dialogue Group is a coalition of 18 different energy associations. We cover everything from upstream production through to the energy efficiency side of things. We like to think we cover a pretty broad spectrum of business perspectives on energy. We came together primarily to work with the Canadian Council of Energy Ministers on energy policy in its largest sense, but necessarily as a consequence of that we've started to form some views on environmental issues. It's part of it.

We don't have a firm common view on Kyoto per se, but what we thought we could do for you is offer what we think are some pretty basic perspectives on energy and the Canadian energy economy and how that should be brought into play as we think about a workable greenhouse gas emissions management strategy for Canada.

As I say, I'll flip through these reasonably quickly. These are snapshots and some basic perspectives.

The simple message on page two is that the Canadian reality is that we are a big producer of energy relative to the size of our population or our economy, bigger than any other country in the G-7 or in NAFTA, and that the production of energy necessarily entails a great deal of energy use and greenhouse gas emissions. That's something we have to take into account.

Think of it as a reflection, I think, of a Canadian strategic asset that we should be building on. There are times when it gets treated as a moral shortcoming, and I think we need to get a little past that.

The next page looks at energy use and at the energy intensity of the Canadian economy. Again, it's the most energy-intensive of the countries in the G-7 or in NAFTA, reflecting basic underlying Canadian realities: our industrial structure, our lifestyles and habits, our size, and our northern climate. At the same time, what we're seeing is declining energy intensity—actually declining a little faster than the G-7 average. That's moving in the right direction. It needs to move faster in that direction, and we need the policy conditions in place to do that. Nonetheless, that's pretty basic to the reality we're working with.

Page four takes it apart a little and looks at what's happening in different sectors. There is some good news and some not-so-good news. The good news is on the industrial side, where, frankly, competitive cost pressures on the industrial sector continue to keep energy use in the forefront of people's minds, so you've seen steady reductions in energy intensity and steady reductions on the residential side as well. On the other hand is the commercial sector, where for a number of reasons you have seen less impressive gains in efficiency, changes in structure, and the transportation sector, where again, although we've seen changes in energy efficiency, the structural changes in the sector have militated against any meaningful decline in energy intensity.

Page five gives you a sense of where the overall contributions to energy demand growth are coming from. This is one that might look a little contradictory relative to page four, but the industrial sector is where the big contributions are coming from. What that reflects is that even though we are seeing steady declines in energy intensity and improvements in energy efficiency, we're also seeing very good gains in Canada's industrial sector, including its natural resource and energy sectors—in other words, economic growth, jobs, investment, things that Canadians value, and the effect of that is to increase our energy use.

Page six looks at, in total, what's been happening with energy end use. Basically what you see there is a variable track, but nonetheless a pretty steady upward track somewhere close to 1.5% per year. Occasionally you'll see a down tick, but as I say, the basic trend is pretty firmly set and it is deeply embedded in the Canadian economy.

● (1110)

We're not going to get rid of that in a hurry. We have to think of ways to slow the demand for growth and come up with the policies to do that. It's very unlikely that we could slow it very dramatically in a very few years, certainly not the very few years remaining before the Kyoto commitment period.

Page seven, again, takes it apart a little bit. This is information from Natural Resources Canada. For those of you who are not familiar with it, NRCan has some very good information on energy end-use and the underlying factors. They look at it and decompose it —that's the term—into five different factors.

Again, you see strong growth in activity. Activity is growth in the number of houses, industrial growth, and growth in the number of office buildings that to some degree is offset by improvements in energy efficiency, but not offset enough to reduce demand for growth below the 1% to 1.5% a year that we've been seeing and continue to see as we go forward.

The next page looks at the other side of the equation, which is energy supply. This one is a long-term view of the world. It goes all the way back to 1871. You see a steady diversification of the energy supplies in Canada. What we now live in, and have lived in since about the late 1970s, is something that we call the multi-fuel economy. It's a good thing. It improves our options, improves our security, and ultimately improves our environmental performance.

Throughout much of the 1960s we saw options that reduced the greenhouse gas intensity of the energy mix. That was a good thing. Since the late 1990s that has flattened out. We can talk about some of the reasons for that, but this is the other key fact that we have to think about. What do we do to not only reduce the demand for growth, but to reduce the fundamental greenhouse gas intensity of the energy mix, while retaining the virtues of the diversity that serves us so well?

On greenhouse gas emissions, I'm sure you're familiar with a lot of this, but I would draw your attention to a couple of things. Interestingly, total GHG emissions have grown at a lower rate than the end-use emissions related to energy. It largely reflects improvements in industrial process emissions. In other words, the industrial sector has done well there. There are a lot of one-time changes that we won't see replicated. The underlying emissions growth, however, from the combustion of fossil fuels is still continuing at a fairly steady pace. It's a tough one to push down, and we need to be thinking about what's realistic here.

Where are end-use GHG emissions? On page 10, contributions to growth, industrial growth and transportation growth, are the big challenges. Industrial growth is because we have a growing economy and a growing resource sector, and transportation growth is because of the preferences of individual Canadians, broadly speaking.

Where do we go from here? On page 11, there are two basic points that our group agrees on. One is that we do need an overarching energy framework in order to come up with a realistic greenhouse gas emission strategy., It has to be anchored in our energy realities. We also need to employ all available options. We can't afford to set any option aside.

Page 12, very briefly, is on why we need a new energy framework in Canada. There are three reasons, and we have to keep them all in mind, all the time. We need a secure, reliable supply. Canadians count on it. We need to adapt to higher prices. We think a higher-priced reality is something we are going to have to adapt to. By the way, that will have beneficial environmental effects because it will send the right signal to consumers. Finally, we do need to deal with a number of environmental imperatives, not only greenhouse gas emissions and climate change, but all of the others: air quality, land, water, and habitat impacts. We need to keep it all in mind.

On the last page, Mr. Chairman, to wrap it up, there are multiple strategies for GHG emissions management. We need action now, but meaningful results are further in the future. We need to support both today's technologies, getting them deployed in the marketplace where it makes sense, and at the same time invest in the technologies of tomorrow.

We need to focus on three areas. Energy efficiency should be our first choice. We need to think about the price signal and make sure that's not being masked. We need a steady push, and we need to be realistic.

● (1115)

Emerging fuels and technologies such as fuel cells or wind power, with some financial uplift and favourable policy conditions to get them into the system, will all add to diversity and they'll reduce our inherent GHG profile.

At the same time, there are conventional fuels and technologies, and as I said earlier, we need them all. Given the overall energy mix we're looking at over the next 10 to 20 years, conventional fuels and technologies, all of them, will continue to be a big part of our mix. What we need to do is be thinking about how to reduce the GHG emission profile and the other environmental impacts of those technologies at the same time.

So with that, Mr. Chairman, I'll turn it back to you. Thank you.

The Chair: Thank you very much, Mr. Cleland, and right on time too. That's remarkable.

We'll now go to the Canadian Chamber of Commerce and Ms. Hughes Anthony.

Mrs. Nancy Hughes Anthony (President and Chief Executive Officer, Canadian Chamber of Commerce): Thank you very much, and good morning. Thank you for inviting my colleague Scott Campbell and me here to have this discussion with you and present you the views of the Canadian Chamber of Commerce.

I'm sure many of you are familiar with chambers of commerce; you surely have one in your riding. We represent over 170,000 businesses across Canada in every province and territory.

[*Translation*]

We represent every sector of the economy and every region of Canada and we speak up on public policies that are of critical interest to business. Today, of course, the crucial issue is climate change.

[*English*]

The Canadian Chamber of Commerce has a variety of inputs, Mr. Chair, and one of them is our expert committee on the environment, composed of members on both the supply side and the consuming side. Climate change is a very important part of their work. And as part of our commitment to the environment we're working with the Canadian Industry Program for Energy Conservation, called CIPEC, which I'm sure you're familiar with; the International Standards Organization; and Pollution Probe, where we have a very interesting project on the go to help small and medium-size businesses understand GHGs and work to reduce their greenhouse gas emissions.

As I mentioned, our members are both energy producers and energy consumers, and I would like to stress to the committee today that many of them are taking action in the environment, in particular on climate change. We believe that the government—and indeed all Canadians—needs to recognize the action, needs to understand the fact that business is undertaking many initiatives to address climate change. Business in Canada believes in and practises environmental stewardship. Not only does it make good business sense to increase the efficiency of energy consumption and to reduce energy intensity, but we know that by taking action today we will help to ensure the sustainability of our economy for generations to come.

Mr. Chair, I know the members of the committee have our brief.

[*Translation*]

You have our brief in English and in French.

[*English*]

I will not go through, in detail, all of these examples. I think if you look particularly at CIPEC, if you look on their website you'll see examples of this industry-government partnership where we have seen businesses committed to promoting and encouraging energy efficiency. I've listed a few in my brief here, such as Dofasco, in the steel industry; Honda of Canada; and Stora Enso, in pulp and paper. There are many more examples as well on the CIPEC website that I'm sure you can see.

I think I'd like to note also, and I've listed this in my brief, that there are certain industry sectors that are very proud of their accomplishments in the past number of years, some of which started work well before the Kyoto Protocol was ever approved. I think if you look at aluminum, which has kept their GHG emissions stable while increasing their production by 73%, it's quite remarkable. In pulp and paper, the industry has cut oil consumption by half in the last 15 years. When we look at oil and gas, we see natural gas flaring has been reduced by 62% since 1996.

These are just some examples that I wanted to give to the committee of how our members have been working on climate change for many years, and certainly we in the chamber have been very active as well.

● (1120)

[*Translation*]

The Canadian Chamber of Commerce and business in Canada are prepared to work with the government to put in place a policy framework for addressing climate change.

Three years ago, we came together with other business associations to advocate for a made-in-Canada plan on climate change. The government of the day did not have a plan on how to implement the Kyoto Protocol. We wanted Canadians to know that business was taking responsibility on climate change in a way that balanced environment concerns with economic growth.

[*English*]

We fast-forward now to 2005, and I think we would still say that the government has not explained to Canadians how we will respect the Kyoto targets and timeframes. You clearly know about our commitment under Kyoto, what it was and what it remains. We have government forecasts now that show we will exceed our target by more than 40%.

There are many reasons why these targets and timelines are not achievable. I think one significant reason is that the government at the time set a goal that was too ambitious. Of all the targets of the industrialized countries that signed on, our targets are the hardest to achieve, given our climate, given our vast geography, and given, as Mr. Cleland pointed out, that we are such a resource-based economy and such a strong energy exporter.

I agree with Mr. Cleland's remarks, and I'm amazed that many Canadians fail to view the energy and resource sectors as important to Canada's overall economic sustainability and growth. They are critical to our trade and vital to our industries, not to mention their importance for meeting our transportation and home heating needs.

In addition, Canada needs to set out goals that are doable, ones that are set in the global reality. As once again you know, climate change is a global problem, and Canada's actions alone will not solve climate change. We need to make a contribution, though, I would highlight.

We all know Canada's major trading partner, the United States, is not a signatory. Whatever we do we must remain competitive, with the U.S. and globally. I would put on the table that Canada should not sign on to the next Kyoto commitment period unless the United States and emerging economies such as China and India are prepared to undertake commitments to reduce their greenhouse gases. Why should we put ourselves at an economic disadvantage? We compete on a daily basis for investment with these countries and we need to be able to compete with them when it comes to selling our goods and our commodities.

With this in mind, what is it that we are asking the government to put forward? We advocate a climate change plan for Canada that embraces a number of principles, and Mr. Chair, they are in our brief today. I'll just touch on a couple of them. Certainly encouraging the development through research and commercialization of technology is a fundamental point. One area that I think would assist this is the development of a more robust capital cost allowance regime. We're hopeful Mr. Goodale's budget might have something along that line.

Among other points that are made here is that there are extremely long timelines with respect to plant and equipment, and also with respect to consumer goods and vehicles and refrigerators. I think we cannot set artificial deadlines that would force either companies or consumers to accelerate the retirement of some of this plant and equipment.

We generally feel we should focus on incentives rather than penalties in any plan that comes forward and certainly should recognize actions that have been taken since 1990, some of which I've highlighted here today.

There has been some conversation around using emissions trading systems, using offsets. We certainly believe there should be a market-based emissions trading system, and there should be a maximum amount of flexibility in achieving these objectives through any kind of offsets or emissions trading.

We would put public transportation on the table as well, as a top priority in terms of trying to meet those goals.

Finally, Mr. Chair, we would stress that we need to have the provinces and territories very much with us here in terms of a plan that Canadians can get behind. We don't want to create a kind of regulatory burden where we have provinces doing one thing and the federal government doing something else.

● (1125)

[*Translation*]

In conclusion, Mr. Chairman, in the Speech from the Throne, the government said, and I quote:

> The government reiterates that it will respect its commitment to the Kyoto Accord on climate change in a way that produces long-term and enduring results while maintaining a strong and growing economy.

It is these last few words that must be weighed very carefully. We must maintain a strong and growing economy. This is crucial to ensuring prosperity for all Canadians.

[*English*]

We would also ask the government consider very carefully how it has spent and will spend our taxpayers' money on climate change. There should be a rigorous monitoring to ensure the money is well spent. We understand somewhere close to $3.7 billion has been budgeted to date. We have no clear understanding of what we have achieved for that investment.

I will close by saying we want the government to be successful in getting business and all Canadians behind the plan on climate change. I think we can only do that if we recognize the global context, both economic and environmental, in which Canada is situated and if we agree to the kinds of principles I've laid out in this brief today.

Thank you, Mr. Chair.

The Chair: Thank you, Ms. Hughes Anthony. That was right on ten minutes. That's pretty good.

Now we'll hear from Mr. Bramley from the Pembina Institute.

Mr. Matthew Bramley (Director, Climate Change, Pembina Institute): Thank you very much for the invitation.

[*Translation*]

I will be making my presentation in English, but I would be pleased to answer questions in French afterwards.

[*English*]

My presentation today focuses on what the government refers to as large final emitters. These are large industrial facilities that account for close to 50% of Canada's greenhouse gas emissions. Clearly, the policy for large final emitters is the single most critical element of a credible plan to implement the Kyoto Protocol, simply because of their share of emissions.

I hope you have the document I distributed in front of you. It shows that industrial emissions in Canada, according to Environment Canada, total just over 50% of Canada's greenhouse gas emissions. That portion attributed to industry very roughly divides into thirds: one-third from the oil and gas sector, one-third from electricity generation, and one-third from the remainder of industry. That's approximate. It's a little bit more than a third for oil and gas and a little bit less for mining and manufacturing.

The emission trends are in front of you as well, and you can see that there's a wide variation. Overall, between 1990 and 2002, industrial emissions rose more quickly than Canada's total emissions. Canada's total emissions rose by 20%. Industrial emissions rose by 23%. The oil and gas sector emissions rose by 47% between 1990 and 2002. The electricity sector emissions rose by 35% over that same 12-year period. Clearly, the current policy environment for these emissions is not adequate to meet Kyoto targets.

What did the federal government commit to in its Kyoto plan for large final emitters? This is taken from the climate change plan for Canada, which was released in November 2002. The plan lays out three elements for large final emitters. The first, which is the element most often referred to, is a system of emissions targets combined with emissions trading, a targets-and-trading system for large final emitters amounting to 55 megatonnes of emission reductions.

But it's important not to overlook a range of so-called targeted measures in the climate change plan that were also intended to reduce directly or indirectly the emissions of large final emitters. Some 18 megatonnes of reductions can be found in the climate change plan for measures that had to do with reducing industry's emissions intensity and a further 19 that had to do with reducing the output of fossil fuel electricity. So together there were actually some 92 megatonnes of reductions in the climate change plan for Canada for large final emitters. The notion here was that industry was responsible in a financial sense for the 55 megatonnes, and the government was responsible for putting in place and paying for the measures to go beyond the 55 megatonnes.

I'd like to focus on four weakenings of the targets-and-trading system for large final emitters, which have emerged in recent discussions within the federal government, as reported publicly. I'd ask you to refer to the graphic that's attached to my presentation. I'm not going to attempt to explain all of it. It's a little complicated. I would ask you to look at the second column from the right, which depicts what the climate change plan for Canada laid out for large final emitters in terms of where their emissions would be in 2010. It shows those three elements I referred to: the targets-and-trading system reducing by 55 megatonnes, the targeted measures reducing by a further 18 megatonnes, and then a further 19 megatonnes.

I've referred in my presentation to two articles published by The Canadian Press in January. The first reported on a Natural Resources Canada submission to cabinet, and the second referred to an Environment Canada discussion paper. I'll focus on what emerged from the NRCan submission. There are three key weakenings relative to the climate change plan for Canada that were present in that NRCan submission to cabinet, as reported in the article I referred to.

● (1130)

First of all, there is an upwards revision to this so-called business-as-usual projection for large industry. That is shown as an arrow upwards with 29 megatonnes toward the top left of the graphic. Those extra emissions are attributable to higher than expected industrial production in 2010, largely, it would appear, from oil sands. Because the government has chosen to set targets in emissions intensity and not in terms of actual emissions, those 29 megatonnes of extra emissions become the government's responsibility, and not industry's responsibility. So that's the first weakening. In essence, we're moving the starting point from which reductions will be measured.

On the second weakening, it appears the government is counting the 18 megatonnes of targeted measures twice: once as targeted measures, and a second time as part of the targets-and-trading system. In other words, the 18 megatonnes get swallowed up as part of the 55 megatonnes. So we're losing 29 megatonnes, and we're losing 18 megatonnes by double-counting targeted measures.

The final weakening is an actual reduction in the 55-megatonne objective from the targets-in-trading system. According to the report I'm referring to, the reduction was down to 37 megatonnes. There was a story in the *Toronto Star* on the weekend that said it might be 45 megatonnes, but either way we're looking at a significant additional reduction, apparently. The net effect of all these weakenings is shown on the right side of the graphic.

Focusing on the measures that had to do with emissions intensity, in the climate change plan for Canada there were 73 megatonnes of reductions—four large final emitters that had to do with reducing emissions intensity by 73 megatonnes. If you add up the effect of these three weakenings that were present in the NRCan proposal to cabinet, those 73 megatonnes fall to 8 megatonnes if one retains the same starting point.

Just so we have the context, we already had a climate change plan in 2002 that had a gap of some 60 megatonnes. If this proposal or something close to it were accepted, we would be adding an additional gap of the same order of magnitude.

Unfortunately, there is a fourth weakening that emerged in an Environment Canada discussion paper. It was also reported in the Canadian press in January. This is the notion that industry would be given the option, in complying with its mandatory targets, of making payments into a technology investment fund. I have nothing against technology investment funds, and nothing against government policies to promote long-term technology development. But the issue here is that industry would be allowed to count toward its Kyoto period targets—its 2008 and 2012 targets—emission reductions that would only actually occur a number of years later, because we're talking about development of long-term technologies.

So once again you have transfer of liability for emission reductions in the Kyoto period from industry to the government, and then to the taxpayer. I've put in my presentation that this could be up to a further 20 megatonnes. This is a rough number, but if one figures that we have a 55-megatonne system, and roughly half of those emissions might be achieved on the ground by industry, and the other half might need to be achieved through emissions trading, or some other option, you could see up to 20 megatonnes being purchased through payments into this technology investment fund. The net effect of that would be that we would be looking at a total weakening of all these four weakenings of up to 80 or more megatonnes.

In wrapping up, I'd just like to address the economic arguments. Many in industry have argued that the proposed targets, as part of the 55 megatonnes, are not economically achievable. It would appear that Natural Resources Canada has made similar arguments as well. I'd just like to focus on the oil sector. The 55-megatonne targets-and-trading system corresponds to a 15% reduction target for each sector. The government has calculated, and industry has acknowledged, that a 15% target for oil and gas represents a maximum cost of 25¢ per barrel of oil. That's a maximum, because it assumes the target will be met purely through purchasing emission credits.

● (1135)

There's a story in today's *Globe and Mail* that I draw your attention to. I think it's page B3, with quotes from the president of the Petroleum Technology Alliance Canada, Eric Lloyd, a petroleum engineer with three decades of experience in the oil patch. He believes that there are 29 megatonnes of profitable emission reductions in Canada's oil and gas industry that would actually save a billion dollars a year to that industry.

Finally, oil and gas companies that have adopted voluntary greenhouse gas targets, companies like BP.... I'll just quote from a speech made by the CEO of BP, who said they

> ...found that efficiency and emissionreduction was good business. So while some remained locked in a debate about predicting thecost of reductions, our staff were pursuing activities that added value. In fact within the first threeyears we added $650M of value, for an investment of around $20M.

In conclusion, we need to see a system of mandatory emission targets for large final emitters that is in keeping with their 50% share of emissions. That's a deliberately vague term, because what that level turns out to be is obviously open for discussion, but the amount of reductions required of industry needs to be fair with respect to the rest of the economy, with respect to taxpayers who have to pick up any shortfall, and it needs to be reasonable economically. But I think the arguments are there, certainly for the oil and gas sector, that much can be done that is economically reasonable.

We need to avoid double-counting and we need to avoid the loophole of this technology fund as a compliance option.

Thank you.

● (1140)

The Chair: Good. Thank you very much, Mr. Bramley. It was just a little over, but that was in keeping with what's been established as the record.

We now go to Dr. Ed Mallett, president and CEO of the Ontario Centre for Environmental TechnologyAdvancement. Welcome, Dr. Mallett.

Dr. S. Ed Mallett (President and CEO, Ontario Centre for Environmental Technology Advancement): Thank you, Mr. Chairman.

OCETA is one of three Canadian environmental technology advancement centres, including Enviro-Access in Quebec and CETAC-WEST in Calgary, Alberta. The three not-for-profit organizations were created in 1993-94 as part of the then Government of Canada's green plan, which had a component called the green industry strategy with 25 initiatives. I think we are one of the very few surviving initiatives in that particular plan.

In my brief remarks, I'd like to give you a little bit of a background on the ten years of existence we've had and cover the experience we gained, where it has contributions to make on issues related to energy efficiency and climate change and Kyoto. I'd also like to comment on a few of the lessons learned from that experience, which might be relevant to how the government develops its plan to meet the Kyoto targets.

The core mandate of the CETACs was to supply business services to entrepreneurs, start-up companies, and SMEs to assist in the process of commercializing new environmental technologies. The view at the time was that the environmental industry was a very attractive policy area for development and that there were a lot of jobs and growth prospects in promoting the environmental industry.

The industry today has revenues of about $16 billion, and most companies in that industry are still SMEs, with most of them—perhaps 90%—having less than $20 million in sales and therefore having in the region of 20 or 30 employees. However, the industry has a higher-than-GDP growth rate, has a lot of prospects for export, and employs a large percentage of post-secondary educated employees.

The public policy rationale for committing to the environmental industry was largely the belief that increasing the success of those innovative new companies would be a great economic and environmental benefit to Canada.

When we were funded by the Canadian government, the hope was that after a period of funding we would become financially self-sufficient. I'm pleased to say that all three organizations still exist and are doing quite well, but they have done so by broadening out their range of servicing away from the commercialization of new environmental technologies. All three CETACs have developed programs for the delivery of energy efficiency and eco-efficiency programs to industrial manufacturing facilities, where we promote the investment of capital in environmental sustainability.

For example, in the last several years OCETA has conducted over 300 industrial audits that have led to recommendations of around 1,500 projects for improvement of environmentally sustainable performance, including better use of water, better use of energy, better treatment of wastes and reduction in waste materials being used. And both CETAC-WEST and Enviro-Access have similar programs focusing on industrial manufacturing. CETAC-WEST, for example, has been working very closely under an NRCan program on downstream oil and gas activities, and they have demonstrated in a lot of the audit work they've done that the opportunities for reduction of energy consumption in the oil and gas sector are just enormous. You're often looking at three-month paybacks on some of the investments that are available in that particular sector.

These programs on industrial manufacturing complement our technology commercialization mandate, because they promote the development of environmental goods and services, and thus they've developed markets for the environmental industry.

● (1145)

What lessons have we learned in the ten years we've been in existence, and how do they relate to the issues of Kyoto?

First, achieving Kyoto will require the development and successful commercialization of new technologies. These could be alternative energy, energy efficiency, new products, technologies to address sources of greenhouse gases.

Interestingly enough, in the agricultural industry the biggest source of greenhouse gas is manure from livestock operations, where they generate something like 80% of the total amount of greenhouse gases from that sector. You can significantly cure that problem by dealing with manure management technologies, and therefore it becomes part of what you can address through Kyoto.

Many of these new technologies are coming from entrepreneurs in start-up small companies and those where they're trying to take R and D into the marketplace. The Canadian innovation chain has to be assured that the kinds of companies that are developing these innovative solutions can be nurtured through what's referred to as the valley of death, which is their probability of failure between commercialization and conception. Obviously we believe the CETAC organizations have a major role to play in that area.

Second, there has been a lot of discussion about the Canadian industrial manufacturing base. Obviously manufacturers are large users of water, energy, and materials, and they produce a lot of waste water and waste materials, and they release GHGs as a result of their operations. A lot of the discussion has been about corporate influencing, with respect to these manufacturers, for commitments to Kyoto.

I would make the case it's not just a CIPEC initiative, because in many cases the decision-making in manufacturing is done at the manufacturing facility, where the plant manager has a tremendous amount of flexibility about where and how he applies that capital. If you want to change behaviour in the manufacturing sector, you have to look not only at the corporate policies but at how you influence the plant decision-making that is largely in the hands of the plant manager.

In the 300 energy audits we've done in the last several years, as a routine matter we can go into almost any manufacturing plant in Ontario and identify 15% to 20% energy savings opportunities with a less-than-two-year payback. If you were to ask yourself what the corporate rate of return is, you'd probably say four-year paybacks would be adequate to meet corporate profitability targets. Even if you looked at a four-year payback, you would obviously have lots of opportunities to invest money in energy savings that would be meeting profitability objectives of the company.

You cannot harm a company by having it make investments that actually achieve corporate objectives in profitability terms. Obviously government policies should encourage these kinds of investments, because they do not do harm to the company. The obvious benefit, from a government policy point of view, is that if you can encourage these investments to be made, then in actual fact the company's money is being used to bring about those changes, not the government's money.

Despite these profitability characteristics, you'd ask why the government would have any role to play. If these are profitable investments, why don't the companies just do them? The reason is, despite the fact that they're profitable, they have in general low priority when it comes to allocating capital within the manufacturing sector. There are very many other areas where a company needs to spend its capital that perhaps exceed in strategic priority the investment in sustainable investments. These could be the protection of production output, expansion of production, improving labour efficiencies.

Labour and materials are a significantly larger component of overall manufacturing than energy and sustainable issues. Material efficiencies obviously are places where priorities can be set, and there are a lot of organizational barriers to actual implementation of sustainable investments at the plant level, where many of these decisions are made.

I would say there are two messages I would like to encourage the government to consider in going forward on Kyoto. First, there is the innovation agenda, which looks at commercialization of new environmental technologies. Second, how do you incent companies to make these kinds of investments, recognizing that not only do you get environmental benefits, but you actually are improving the competitiveness of manufacturing by lowering their costs when making these kinds of investments?

● (1150)

Thank you.

The Chair: Thank you very much, Dr. Mallett.

On behalf of the committee, I appreciate all of the input that has been made.

Now we'll go to the top of the order, to Mr. Richardson.

Just to explain to our witnesses, we go down the parties with ten minutes of questions. The ten minutes are in clumps of time. The member may take all the time or may divide it up among the members. We have three members, for example, from the Conservatives. They're going to divvy up their time, and I'm going to watch the time.

Okay, Mr. Richardson, you're on.

Mr. Lee Richardson (Calgary Centre, CPC): Thank you, Mr. Chairman.

I want to thank those appearing today, not only for their presentations this morning, but for the material they were kind enough to send in advance. It was very helpful and made their presentations more effective having done so, to such an extent that I really don't have any further questions. I was very pleased to hear the various input.

I did have one question for Mr. Bramley, a point of clarification. Did you say at one point that the target of a 15% reduction in the oil industry could be reached simply by buying credits at a cost of 25¢ a barrel?

Mr. Matthew Bramley: That's correct.

The Deputy Minister of Natural Resources Canada, George Anderson, was a witness at the House of Commons Standing Committee on Industry, Natural Resources, Science and Technology on November 4, and he confirmed that number: 25¢ per barrel. It's very easy to show how that number is calculated, in fact, and it has been confirmed by companies like Suncor and Shell.

Mr. Lee Richardson: On what price per tonne for emission credits would that be based?

Mr. Matthew Bramley: That would assume $15 a tonne. If you take oil sands, which have about one-tenth of a tonne of emissions per barrel, you multiply one-tenth of a tonne by $15, and you get $1.50. You multiply it by 15%, and you get about 22.5¢.

Mr. Lee Richardson: Thank you.

That was the only question I had.

The Chair: Mr. Jean.

Mr. Brian Jean (Fort McMurray—Athabasca, CPC): I was just curious. You had mentioned the increase. Obviously, Ontario in 1990 was the big emitter of greenhouse gases, and now Alberta is.

My question is to Mr. Cleland. Is the increase primarily to the oil sands, or does it have a lot to do with the transportation sector? Isn't it the case that actually the transportation industry in Alberta has eaten up a lot of those greenhouse gas emissions—for instance, big diesel trucks used for transportation, since many of the rail lines were taken out, and so on, in Alberta?

Mr. Michael Cleland: I don't have the exact numbers in front of me. There's no question that the energy sector overall, the oil and gas sector overall, is a big source of increased emissions. That's both oil sands and natural gas production, as it turns out.

How much Alberta's emissions are attributable to the transportation sector, I'm not sure. I'm sure you're right that it's fairly substantial, although generally in Canada the part of the transportation sector that is most responsible for emissions growth is individual personal transportation. The numbers are available in Canada's greenhouse gas emissions inventory.

Nonetheless, there is no avoiding the fact that a healthy, growing oil and gas sector has a lot of emissions associated with it, and Canada has a challenge in ensuring we enjoy the benefits of that sector while we deal with emissions.

Mr. Brian Jean: I understand as well, Mr. Cleland, that the oil producers in the oil sands have voluntarily reduced up to the range of 30% of their own emissions per plant.

Mr. Michael Cleland: Yes, that's broadly true.

Again, if you look at the industrial sector overall, it's true that reducing energy use saves money. In the overall scheme of things—and I think that was a fair characterization of the different strategic priorities that a company might face—ultimately, reducing energy use becomes one of them and is somewhere you see opportunities.

So, yes, they reduced it voluntarily. They reduced it voluntarily in considerable measure because it's good business. The important thing is to keep it moving in that direction.

● (1155)

Mr. Brian Jean: My final question is actually for Dr. Mallett.

You had mentioned the innovative agenda. I believe you were talking about both the manufacturing sectors—for instance, star appliances, automotive, and so on—and possibly building codes, smart houses, light switches, things like that.

Is the innovative agenda that you spoke of more geared towards LFEs, large final emitters, or towards consumers generally?

Dr. S. Ed Mallett: We are focused on the environmental industry. It's sometimes difficult to define what you mean by the environmental industry, because environmental issues are involved in a very substantial range of different products that may not be considered to be part of the environmental industry. Most of what we do, as organizations, is work with small, entrepreneurial, start-up companies that are developing new goods and services from research and development. Therefore, our role is to try to assist them in becoming successfully commercialized, so we're part of the innovation chain that looks at Canada's research and asks how to bring about commercialization of the goods and services in that area.

When we look at manufacturing and what we do with manufacturing companies, essentially we focus on the industrial manufacturing sector. One hears an awful lot of issues about what an SME is. You can say there are two million SMEs in Canada, but that includes just about every enterprise that exists, and not all of those are manufacturers. You probably know the numbers more than I do, but there are probably somewhere in the region of 35,000 to 50,000 actual manufacturing operations and manufacturing facilities. Those are, in fact, the clients we work with. Those may be automotive parts, textile operations, chemical operations, food and beverage operations—things of that type. There are about 18 SIC codes under Statistics Canada's classifications, and those are the kinds of manufacturing SMEs that we work with.

Mr. Brian Jean: Very quickly, on that note, do you have a list of studies or products your group would recommend implementing through legislation—for instance, through building codes with provincial cooperation, and things like that—that would hit final consumers most efficiently?

Dr. S. Ed Mallett: A whole industrial sector is focused on better insulation, more efficient electrical appliances, and everything else. In fact, NRCan and the Province of Ontario are now putting a tremendous amount of funding source behind the introduction of those kinds of products. In fact, I think there seems to be more attention being placed on residential houses these days than on the industrial sector. NRCan's program, for example, on EnerGuide has something like $80 million of incentives over three years for introduction of EnerGuide improvements in houses. I don't think there is a comparable funding source available for the industrial sector. A lot of information is available on those kinds of goods and services, and quite a significant industrial sector is focusing on green products for housing and residential activities.

Mr. Lee Richardson: We may have to go to the next round, but I just wanted to ask Ms. Hughes Anthony a question, because you do represent a pretty broad sector of the Canadian society. I'm curious about the sustainability of the economy in any dramatic changes or requirements in terms of targets. We have been hearing, even from the government, some doubt whether these targets are achievable in the time frame. In your consideration of incentives versus penalities, have you determined that with incentives, these proposed targets can be met in the time frame that is now imposed?

Mrs. Nancy Hughes Anthony: I certainly do not think, Mr. Richardson, that Canada will be able to achieve its Kyoto targets within the timeframe indicated.

Having said that, there's a lot of work being done on climate change in many industries in many sectors. We are, as you can hear around this table today, succeeding in certain areas. I think the overriding frustration that many of us have had in the business community is the fact that there is an opportunity here for Canada to lay out—maybe just set the Kyoto targets aside, just put them over there for a minute—a pan-Canadian plan that effectively gets at climate change in a wide variety of ways on the consuming side, and on the energy-producing side.

After I don't know how many years since signing Kyoto, we still do not have such a thing. Yet there is lots of information and evidence out there that people are busy monitoring on what has been done. In certain sectors we've reached tough barriers on the technology side that we need to move forward on. I think that's where we need to see some very strong focus. As opposed to just kind of putting out incentives hither and thither, let's try to understand what our national perspective is on energy supply, as Mr. Cleland has pointed out. Let's try to focus on what the promising technologies are. Let's try to put those incentives in those particular areas and see if we can really make some progress.

● (1200)

The Chair: Thank you. I'm going to have to cut that for now.

If the witnesses wish to add something in the round of questioning, you could go back to that, Mr. Cleland. I'm sure there are going to be some questions that will be asked of you.

Mr. Bigras.

[*Translation*]

Mr. Bernard Bigras (Rosemont—La Petite-Patrie, BQ): Thank you, Mr. Chairman.

Listening to our witnesses today almost made me feel that I was on an another planet. I agree with some of the statements made by Ms. Anthony and Mr. Cleland. If Canada is having trouble meeting the Kyoto targets, it is precisely because it has not taken any action and because industries did not even see fit to respond to the federal government's call for a voluntary approach. I therefore think that if criticism is in order, it should definitely be directed at some of the industries that acted in bad faith and clearly thought to distance themselves from the Kyoto Protocol.

This morning, our witnesses have spoken to us about a framework for climate change that should guarantee supply. We were told that this plan must adapt to high prices. However, I heard nothing from the industry representatives about clear objectives with quantitative targets designed to meet or to try to meet the Kyoto objective.

My question is to Mr. Cleland. I understand you want a Canada-wide plan, but tell us clearly what commitment your industry is prepared to make, together with the government, to help reach the Kyoto objective. We do not want to hear empty words, Mr. Chairman, but rather some quantitative targets. The protocol sets quantitative targets for reducing greenhouse gases. There is a specific target, expressed in megatons, for industries, which were responsible for 47% of the increase in greenhouse gas emissions between 1990 and 2002. What commitment are you prepared to make regarding your contribution to meeting the objectives set out in the Kyoto Protocol?

[*English*]

Mr. Michael Cleland: Thank you for the question, Monsieur Bigras.

First of all, you asked about my particular part of industry. It's the downstream end of the oil and gas industry. I won't speak for other parts. Mr. Konow may wish to talk on electricity.

You asked what specific commitments we would make or have made. We have made a number of specific commitments to work with Canadians to improve their own energy efficiency. It's part of what our industry does. We work through our various regulatory authorities. We can provide you with indications of what sorts of things, what reductions we've achieved in that area. We'll continue to do more, as long as governments and regulators continue to work with us.

In terms of our own emissions, we have been working closely with NRCan, with the government, in the large final emitters framework. Clearly, what we will ultimately agree to will be part of the overall discussion and what the government ultimately comes out with by way of a standard.

You talk about acting in bad faith, and I disagree fundamentally with that. We've been working in good faith with the government to come up with a realistic plan for reducing our emissions, consistent with the overall policy framework.

● (1205)

[*Translation*]

Mr. Bernard Bigras: Mr. Chairman, I can understand that objectives would be set for some industries that have the technology or for some industries that do not set objectives themselves.

For example, in the cement industry, the required technology is almost non-existent, and it will therefore be more difficult to achieve the desired results. In addition, the oil and gas sectors have the technology and could very well use it to help reduce greenhouse gas emissions.

I am wondering what quantitative commitments the largest industrial greenhouse gas emitters are prepared to make, together with the government, to help reduce emissions by 240 megatons.

I have another question. I assume the government has shown you the diagram illustrating that the economic impact of enforcing the Kyoto Protocol would not exceed 25 cents a barrel for the oil and gas industry. Do you agree with this finding presented to you by the federal government?

[*English*]

Mr. Michael Cleland: What I should do is put that in context first. What we're talking about here is the assumption you have the $15 cap and the 15% reduction on an intensity basis and in turn the assumption that most of that is a result of purchased credits.

That brings me to a point—the point, Mr. Chairman, I wanted to make when Ms. Hughes Anthony was talking—the problem of confusing importance with urgency. Greenhouse gas emissions management is an important policy issue for Canada. Most of the opportunities for achieving the kinds of reductions we would ultimately need to achieve if we're talking about stabilizing world emissions are available on time horizons of 10, 20, 30, and 40 years in the future. The difficulty we face right now with respect to Kyoto—and we faced it five or eight years ago when Kyoto came into place—is that the majority of the opportunities were already excluded by virtue of the existing capital stock in the Canadian economy, and that's true right across the board. You have to take that into account if you're talking about a realistic, real reduction in emissions.

I also want to point out to you a couple of things in my presentation, where we showed what industry has indeed already done, and Ms Hughes Anthony talked about it as well. We have made gains in industrial process emissions, in other sectors there have been some very good gains across the board in terms of energy efficiency, and industry will continue to do that, as I say, because it's good business.

As to your precise question on the numbers in the context of purchasing those emission credits at that capped price, that's an accurate statement. It's not perfectly obvious that this is very good policy, but the statement is accurate, for what it's worth.

The Chair: You still have four minutes left, Mr. Bigras.

[*Translation*]

Mr. Bernard Bigras: Ms. Anthony told us that she wanted our climate change policy to focus on incentives rather than on penalties. However, the reality is that in Canada there has been a focus on incentives, but for the oil industry. We know that, between 1996 and 2002, there has been a 33% increase in support to the oil and gas industry. There were incentives, indeed, but they were for the oil and gas industry which in turn increased its greenhouse gas emissions by 47% over the last few years.

I agree with you, Ms. Anthony, when you say that we must ensure the money is properly allocated. However, are we not creating a system within which, over the coming years and under the plan which will be presented to us, the oil and gas industry will bear less of a burden—and Mr. Bramley made an excellent presentation to that effect. Second, will corporate citizens who have increased their emissions not continue to benefit from tax incentives? Take for instance bill C-48, under which $250 million per year is given to the oil and gas sector. Would it not be more advantageous to focus on tax measures aimed at reducing greenhouse gas emissions, for instance, aimed at encouraging the development of renewable energy? I think that would most probably be a better solution. Should the government not reposition itself, through tax measures, to encourage those industries, which are most probably also members of the Canadian Chamber of Commerce?

● (1210)

Mrs. Nancy Hughes Anthony: I will respond to some of the points you have raised. I think we must clearly establish that the base year for the Kyoto Protocol was 1990. We should also say that the target set out was not a good one, in my opinion, because Canada was in a growth phase. Since then, we have benefited from economic growth, and our energy exports also contributed to this growth. So, Mr. Bigras, I don't think it is quite fair to fault the oil industry for its great success over the last few years.

Everyone in this country uses energy, even in Quebec, be it gas to power cars, or oil to heat houses or for industrial purposes. In light of what we have heard today, I have noted that the energy industry has definitely taken measures which have had an effect on the intensity of its greenhouse gas emissions. Can we do better? Absolutely.

According to me, we have to take into account how our energy production has contributed to our economic growth, and what it means to consumers. I don't think consumers who had hoped to keep their fridges for 25 years will want to throw them out after 5 years if there are no truly positive incentives to do so. This is why I believe in technology, in technological development incentives, as Dr. Mallett stated, so as to have efficient technologies for consumers as well as for the industry. Apart from that, we have the One-Tonne Challenge—you have seen the advertisement on television— but Canadians don't know what it's about, they don't know what to make of all of it. Should you replace you car tomorrow to buy a smart car, which is not even available in Canada? Should you replace your fridge or your freezer for a more energy efficient one? We have not gotten there yet. This is a long term effort, and all Canadians have to do their part.

[*English*]

The Chair: Merci, Madame Hughes Anthony, Monsieur Bigras.

Mr. McGuinty now, please.

Mr. David McGuinty (Ottawa South, Lib.): Thank you, Mr. Chairman, and thank you to all the witnesses for being here today. It's a wonderful panel and I have way too many questions.

I'd like to take five or six minutes, Mr. Chairman, if I could, and pose a series of questions and then see who can answer them and then maybe take them forward in other responses.

I'd like to pick up on the first presentation that Mr. Cleland made and echo his sentiment for the need for an energy strategy, or a foundation paper of some sort, in this country on where we're going with energy. The National Energy Board's work is perhaps the only serious gander at where we're going in terms of energy trends. I certainly echo the need.

I've looked very closely at the U.K. experience, and looked at the drivers, including the fact that the North Sea oil and gas seems to be running out for the U.K. That I think drove the Prime Minister there to take the climate change file in his own office and reframe the climate change debate as an energy debate so citizens can understand what is being talked about, because they still don't understand the climate change phenomenon. There's mass confusion.

I'm fond of the one-tonne challenge advertising, but I think a lot of Canadians still think we're talking about a weight-loss program. So I wanted to table the support for an energy or foundation paper on energy.

Second, I'd like to hear from the members of the panel, Mr. Chairman, as to what extent is there fungibility with the United States approach on climate change, because there is an American response to climate change. It's just not under the ambit of the Kyoto Protocol, but there is an American response to climate change. To what extent do the panellists believe that the Canadian approach is fungible or non-fungible with the emerging American approach, particularly as we've struck a North American energy working group at NRCan, which liaises with its counterpart in Washington? However, they don't speak about the term “sustainable development”, and they don't talk about greenhouse gas reductions, which I find incredible in the context of NAFTA.

I'd your comments, please, on this question. Yes, we are pursuing the Kyoto deal on a multilateral basis, but we are inextricably linked, and the last time I looked our land masses and our oceans were contiguous with American land masses and oceans and so why are we not turning our guns now on a NAFTA basis and looking carefully at the climate change response on a NAFTA basis?

I'd like to ask you, Mrs. Hughes Anthony, something more specifically. You made a number of remarks about public transportation being an essential response to the climate change phenomenon. You raised some doubts about the efficacy of government spending on programs. Are your members now prepared to go public and support, for example, increased taxation for public transit funding? This is after, for instance, the province of Ontario undergoing seven years of massive cuts to public transit, in the GTA for example, through quite a Republican-Conservative government. Would your members now be prepared, as a climate change response measure, to support tax increases to fund, for example, public transit? Are they prepared to fund further infrastructure investments and other government programs, which, as you rightly point out, should be efficacious? Do you think your members are on that page at this stage?

My next question is for you, Mr. Bramley. Numerous references have been made to a recent Pembina paper that we haven't seen yet. I wanted to get a sense of what the paper says specifically about federal government support to the fossil fuel industry. I want to know how much we're talking about. I want to know whether this paper has been peer-reviewed. And have you had a response from government and/or industrial sectors or consumer groups?

Finally, I go to Dr. Mallett. I have to congratulate you on your presentation. It was one of the most refreshing presentations I've heard on climate change on the front lines debunking myths about the difficulties we're having in implementing eco-efficiency at the plant level, and the allocation of scarce resources at the plant level, as opposed to large corporate strategy. I need to hear from you—and maybe, Mr. Chairman, the committee would benefit from hearing what specifically the federal government can do to respond to that challenge of allocation of scarce resources at the plant level.

You mentioned incentives, and, unlike my colleague from the Bloc who hasn't obviously seen the evidence from the United States, market incentives, particularly emissions trading, have proven to be one of the most cost-effective ways to reduce greenhouse gases and other sources of pollutants. I'd like to hear your comments on that, please.

● (1215)

The Chair: Mr. McGuinty, perhaps I'm hearing three questions there for Mrs. Hughes Anthony, Mr. Bramley, and Mr. Mallett. Maybe we could go in reverse order, and then for the balance, anybody could answer those other two questions with respect to the U.K. experience and the U.S. with respect to NAFTA.

How about Dr. Mallett—we can start with you.

Dr. S. Ed Mallett: An interesting question.

Back in the nineties NRCan and Industry Canada cooperated to look at manufacturing investments and sustainability, and they polled something like 370 companies, asking, what are the barriers to investment in this particular area? They came out with seven—I think it was seven—which were: partly because they don't have the technical resources in the plant; partly because there's a lack of knowledge about what kinds of improvements might bring about energy savings and pollution prevention; capital allocation, that is, not being able to command the priority for these kinds of investments; somewhat of a misunderstanding within the corporations about return on investment criteria; and concerns about production interruption: if I'm going to change the plant line, what the heck am I going to do; am I going to miss my quotas? So a lot of it was systemic issues of plant management that created barriers to this kind of issue.

Now, when we started our programs in this area, we systematically designed a program that would address all of those questions and tried to design a program to begin to change behaviour within the plant. Our whole concept was, let's start a program by reducing some of those barriers, getting people to address issues and initiate programs within that plant, and then let's use the success stories we generate by that means to promulgate the storyline and to encourage other people to behave.

We've been pretty successful with those programs, because the implementation rate for the recommendations we've brought in has been in excess of 95% with one or more of the recommendations that came from the audit. But the reality is that there are still an awful lot being left on the table. For example, people have this mindset of two-year paybacks and that's about it. That is a very highly profitable rate of return, a two-year payback, and clearly you should be able to make investments with four-year paybacks while still meeting acceptable corporate rates of return. So the issue we tried to wrestle with was how do you actually increase the incentive associated with making those kinds of investments?

We had some cases where projects had been let lie simply because they didn't meet the corporate hurdle rate, which was set too high, in my opinion. But the question that came back was, well, is there a way we can get access to funding that will lower the cost of capital associated with making those kinds of investments? And maybe there are tax benefits associated with that depreciation allowance. I think those kinds of issues have to be addressed.

There are in fact a range of economic and fiscal incentives that can be designed to try to encourage those investments, but you have a fairly tough row to hoe. Manufacturers are making so many other calls on that capital that they will always find, when they look at sustainable investments, probably only between 5% and 10% of the total cost burden within the manufacturing facility could be applied in that particular area. All the rest of the costs of manufacturing are going to receive a lot more priority.

● (1220)

The Chair: Thank you, Dr. Mallett.

Mr. Bramley.

Mr. Matthew Bramley: Thank you.

The study to which the question referred was published by the Pembina Institute on January 31, 2005. The title is *Government Spending on Canada's Oil and Gas Industry*. It's available as a free download from our website.

The key findings of the study were that over the study period, 1996 to 2002, total federal expenditure on the oil and gas industry amounted to $8.3 billion over that seven-year period. In the year 2002 the figure was $1.4 billion, and that was an increase of over $1.1 billion from 1996. The oil sands portion of the $8.3 billion was $1.2 billion over the same seven-year period. When the overall $8.3 billion is expressed on a per barrel of oil equivalent basis, it works out to about 65¢ a barrel.

The vast bulk of the $8.3 billion is tax expenditure—in other words, tax advantages the oil and gas industry enjoys compared to a neutral tax system. So $7.9 billion of the $8.3 billion was from those tax expenditures, and the vast bulk of those were the Canadian exploration and development expense and the accelerated capital cost allowance.

I would just mention as well that the study excluded what could be considered other subsidies that are received by the sector. Notably, it excluded any consideration of environmental costs, the cost of the damage to the environment by the sector. It also excluded any consideration of the royalty regimes. We did publish another study a few months ago that documented what we would consider insufficient royalty regimes in terms of the public getting a payback for exploitation of a resource belonging to the public.

The Chair: Mr. Bramley, we're going to get that paper, and thank you for that. But I don't want to shortchange Mrs. Anthony.

● (1225)

Mr. Matthew Bramley: I was asked about peer review. I should probably respond to that.

The Chair: Perhaps we can shoehorn that in. You can make a note of that.

Mrs. Hughes Anthony, with regard to public transit.

Mrs. Nancy Hughes Anthony: I was just going to say I think mine is the public transit one. The chamber and all of its members have been very supportive of the cities agenda, Mr. McGuinty, in terms of making sure our urban centres are functioning well and that there needs to be some kind of revenue sharing, if you will, for important things, such as infrastructure. For many of our cities, public transit is high on the agenda, along with water and sewer.

You slipped in the words “tax increase” in order to support this, and I think that's where we would differ. Our members think there is ample room in the government's current budgetary framework to make sure that we support public transit. As I mentioned in my remarks, $3.7 billion has been budgeted so far for initiatives around climate change. Not all of that has been spent. We know that some of that could be reprofiled. In terms of any kind of tax increase, that will not go over well with my members. But when it comes to some dedication of existing resources to encourage public transit, particularly in our large municipalities where gridlock is a real issue, absolutely.

The Chair: Thank you, Nancy.

We'll have to leave the other questions. Possibly we will get to those later on.

Mr. Cullen.

Mr. Nathan Cullen (Skeena—Bulkley Valley, NDP): Thank you, Mr. Chair.

Also, thank you to the panellists.

As you can see, if it's your first time in front of a committee, the time is short for my questions. So I would ask the panellists to make the length of my question correspond to the length of the answer. It's a bit tricky, as Mr. McGuinty said, to get in a lot of things.

I'll start with Mr. Cleland. I am confused about the numbers. The numbers are dubious little things that move around quite a bit. On the one hand, I'm hearing a lot about the improvements that have been made, that the industries have come a long way, particularly in the energy sector, but at the same time, I'm looking at the increase in emissions over the last ten years. I'm having a hard time justifying the two pieces of information.

With the presentation today, if I were to take an objective look, I'd say we're doing great. The oil sector and the energy sector are doing wonderfully at making reductions. But the emissions, particularly in the energy sector, have increased dramatically, and not at the pace of an increase in the profitability of the sector or the percentage of GDP occupied by the energy sector. There seems to be an acceleration of the greenhouse gas emissions by the sector as a percentage.

I'm wondering if you could rectify those two points of view, which just don't seem to fit, in my mind.

Mr. Michael Cleland: I'm not sure I would agree with the point about an acceleration relative to the size of GDP. We'd have to look more closely at what it is that leads you to that conclusion.

I do know that over the last ten years Canada has dramatically increased its output of oil and natural gas. At the same time, we've also been dealing with the inherent high degree of energy intensity in the production of both oil and gas. Much of Canada's gas, for example, has a lot of sulphur. It takes a lot of energy to get the sulphur out. Transportation is involved in that. But on an intensity basis, what we've seen is a very substantial decline, particularly in the oil sands.

So I would argue that indeed we have made the improvement. We need to dig a little deeper into the numbers to show how that's true.

Mr. Nathan Cullen: I would be interested in those.

I have a question, on a practical basis, with regard to Kyoto. There's the prospect of moving a great deal of natural gas into the tar sands to help process the sands. For the value of natural gas as an energy unit, with regard to our emissions, do you find it to be a good thing for Canada to be encouraging through the pipeline developments the use of what I would suggest is one of our cleaner forms of energy to make, in a sense, more energy out of one of our more difficult forms of energy that exist in the tar sands?

Mr. Michael Cleland: I can't resist agreeing with you that natural gas is one of our cleaner forms of energy, and that's one of the points my association tries to make.

That's a tough one. You need to separate the questions. First of all, with regard to encouraging the development of Mackenzie Delta gas and the transporting of it to southern markets, I think you need to think of that as being separate from how it ultimately gets used. Basically, what you have is a North American natural gas pool of about 70 billion cubic feet a day, and where it's sourced from and how it's drawn out is ultimately all into one pool.

At current gas prices, people in the oil sands business are looking at a variety of alternatives. They're certainly looking for ways to reduce the energy intensity of the production process. That's one of the virtues of the price system. Six-dollar natural gas will concentrate the mind wonderfully. I think what you'll see over time is that we'll find ways of extracting that bitumen that are much less energy intensive.

● (1230)

Mr. Nathan Cullen: Thank you. I'll move over to Mrs. Hughes Anthony now.

I've been reading a number of the editorials and newspaper coverage of the chamber's position on Kyoto and I'm finding a strong difference in tone between what I'm hearing out in the general public and the tone I heard today. It was much more encouraging, and I encourage you to present that among the public as well.

I'm curious. When Canada over the last number of years invested billions of dollars in telecommunications—wiring the country, essentially—I don't recall an outcry from the chamber about this being a bad investment. This seems to be good for your members. I am a former member of your chamber as well.

Here we are in the east, hours to go before this thing is meant to be implemented. I'm wondering whether the question is not now that it's been a lost opportunity—a lost investment in Canada's perspective—to invest in those things that would make us more profitable as a nation. I see the efficiencies we're calling for under Kyoto, in terms of energy efficiencies and efficiencies in transport, as a good thing.

You mentioned the United States—which is interesting. My colleague from the Conservatives this morning on a panel mentioned that 39 states are likely to meet their Kyoto targets. The investors are not running away from America. The investors are not saying "My gosh, those folks are investing in things like climate change. Let's get the heck out of here and head to China."

I'm confused by the notion that we can't abide by the investment required in Kyoto for greener technologies and investment because it will create an investment climate that will be discouraging to businesses and we'll be uncompetitive with the United States, while the United States has done so much more than us.

Is not the root of the problem the dithering that's gone on within Ottawa over the last 12 years since this has come to the forefront? And now we're at the eleventh hour and are deciding we're in a panic and simply can't do this.

Mrs. Nancy Hughes Anthony: I would tend to agree with you that dithering in Ottawa has definitely been a hallmark of this whole initiative. Chamber members put their shoulders to the wheel prior to the Kyoto Accord being signed in 1997. At the time of Kyoto being signed, the government set up what I think were called sectoral tables, and many chamber members worked on sectoral tables here and sectoral tables there. Nothing ever came out of this. In the meantime, I am convinced that the initiatives I was talking about today and that they put in place in various sectors are good for business, will continue to be good for business, and must be pursued.

If we could just take the straitjacket of Kyoto, as I said, and set it aside.... There is a difficulty with the timelines of Kyoto: try as we might we do not have the technology to make those deadlines. I think what we should all be focusing on, if we could go up to the moon and look down upon this conversation.... Why don't we all focus on what we can do for continuing improvement? No matter what happens tomorrow because there's an anniversary date, let's benefit from the expertise we have in various industrial sectors that have already made significant improvements? Advance that, invest in the right technology, and move forward; that would be my suggestion.

Mr. Nathan Cullen: Great. Thank you for your response.

Let me make just one comment with respect to targets, and then I'd like to move over to Mr. Bramley. I used to be a strategic planner. Without deadlines and targets it's very difficult for a company simply to express to its members or associates that we're just going to be more profitable or more efficient. Generally speaking, things work well in business if you have a focus and a target.

The notion I heard initially from Minister Dion—this was some months ago—that we need to move away from targets and get on with it is very confusing to me from a business perspective. I'd never suggest doing anything in business without some sort of target or focus, and a goal.

Mrs. Nancy Hughes Anthony: I agree. But look at where we are now, let's say in the province of Ontario, where the Government of Ontario has said they don't think we're going to have any coal generation in the future and we're not going to have any nuclear generation. A lot of my members who are in Ontario are saying, "Well, what's the power scenario in 20 years? How much is a kilowatt-hour of electricity going to cost in 20 years?" We have to get our act together.

● (1235)

Mr. Nathan Cullen: I couldn't agree more.

There's one question I would like to finish with to Mr. Bramley. I've heard the numbers floated around, but they were absolutely striking today concerning the amount of subsidies being paid to the oil and gas sector, particularly in the tar sands, through tax incentives —$8.3 billion or so. I wonder if you'd speculate for a moment what the scenario would look like—to answer Mrs. Hughes Anthony's question about where we would go if we started to take out these energy supplies—if we actually achieved a level playing field in Canada for alternative energies.

Mr. Matthew Bramley: I haven't seen the modelling you'd need to do to really answer that question accurately, but there's no doubt that we are putting very substantial public money into sectors that have very high greenhouse gas intensity and whose emissions are growing very rapidly, while at the same time Canada is far behind many other industrialized countries in zero-emission and low-emission energy technologies.

The example that always comes to mind is wind power, where Canada has something in the order of 400 megawatts installed, and a country geographically far smaller, Germany, has something in the order of 15,000 megawatts. That's just how far we are behind in that particular clean energy technology.

I want to add quickly that I'm a little dismayed by the debate we seem to be having about whether or not the Kyoto target is something we should be achieving, and talking about setting aside targets, or whether or not Canada had the correct target. The fact is this is an international requirement of international law. It's a legally binding obligation on Canada, so I hope, going forward, we could talk about the how and not the whether.

The Chair: Thank you, Mr. Bramley.

We'll now go to Mr. Watson. These are five-minute interventions.

Mr. Jeff Watson (Essex, CPC): Actually, Mr. Bramley's comment gives me a great segue.

If government's wrong in the first place, we're locked into a target. In business, if I make a mistake I can continually reassess my targets and change them according to where I want to go. It is an important opportunity....

You have to have that kind of understanding here. We are locked in, and that provides some interesting challenges. If you're looking at the market per se and all the thousands of individual transactions consumers are making—whether that be how far we drive our cars, what we're willing to pay for gas, or what we're not—and now you've introduced a major shock or disruption into it, there will be some serious repercussions.

Ideas exist in an abstract realm, but they're proven or disproven within the context of reality. I always want to look at.... If a standard works in California, it's not necessarily going to transfer to a jurisdiction like Ontario. If something works in Sweden, it may not work in Canada. Context becomes very important to whether or not ideas are going to work. It sounds nice, for example....

There are probably a number of areas I want to cover, and I'm going to try not to speechify so I can get some actual answers.

Mr. Mallett brought up an interesting idea about companies and their priorities for where they spend their capital. There are some opportunities to be exploited, but companies exist in a competitive—and for the larger companies, in a globally competitive—marketplace. They respond to consumer demand as well as business competition. That forces a lot of decisions about where to capitalize. Perhaps I could make some savings in my energy consumption, but I am forced to improve my materials and my product, because the consumer won't buy it otherwise. This is the context for how industry has to operate.

I came from the shop floor in the auto industry, with cutthroat global competition, and yet they're doing great things in environment, particularly legacy industries like the Big Three—improvements in waste diversion and treatment, pollution reduction, product improvement, transportation improvement—and they have to do these simultaneously without the same access to virtually unlimited capital that a government has through taxation, and still have to do it to compete and to produce for demand. I think the business voice at the table has to be understood in all of this, moving forward.

It's nice to talk about great ideas. I want real ideas that are going to soften the blow so that we still have $30-an-hour jobs in this country, rather than see them leave the country and hope that maybe we can attract new technology jobs, or something we don't even know could exist here or not.

I'm going to ask a question about pricing. Is it an effective mechanism, to increase prices on the consumer? Will it actually change consumer behaviour, or do people simply have to eat it? Will they eat it as the cost of going on in life and make no change?

Can we explore the price mechanism first, as a means of changing demand?

● (1240)

The Chair: We'll hear Dr. Mallett on the capital part of that, and then perhaps we can go to Mr. Cleland, who has indicated he'd like to respond to it.

Dr. S. Ed Mallett: The capital allocation exercise is faced by almost every plant manager on an annual basis. I think there are ways in which you can change the priority if you want to push energy efficiency and sustainable investments. You have to somehow or other make those more attractive than the comparable investments elsewhere. It's not a case of making these profitable as investments, because the investments themselves are already profitable.

Energy is relatively straightforward in a plant context. We've done a Toronto sustainability program that focused on pollution prevention, which is not energy-related; it's handling of toxic chemicals, dealing with emissions that promote VOCs. The average pay-back on the investments that came out of the audit analysis was an 11-months pay-back. In essence, it's not a case of whether we can make these profitable; it's that somehow or other you have to increase the priority for allocation in that exercise.

Unfortunately, it usually involves trying to improve the profitability, so those investments stand out even over and above some of the other investments that are available. In actual fact, if you can make it less than a 12-month pay-back, you have a better chance of its being invested in than alternatives, if in fact the project still remains profitable.

I think anything that can be done to make those kinds of investments a priority within the plant will encourage investment.

Mr. Michael Cleland: Just on the price issue, price does work. There is a lot of empirical evidence around on that, the technical term being “the price elasticity of demand”. But there are limits.

One of the factors is how big energy is, for example, in your overall cost structure. If it's very small, you tend not to notice it. You have other things on your mind. If it's big, you will focus and you will react.

The other factor is the long-term and short-term issue. This is really fundamental, and fundamental to some of the points Mrs. Hughes Anthony was making about the timing. In the short term the elasticity of demand is relatively small, because energy is mostly about the capital you have in place that uses energy. Over the long term, price elasticities are considerably greater. Given the right price incentive or price signal, people will make capital purchase decisions that will reduce their energy use.

The Chair: Thank you, Mr. Cleland.

We're going to have to go over now to Mr. Wilfert. Then we'll come back to Mr. Simard.

Mr. Wilfert.

Hon. Bryon Wilfert (Richmond Hill, Lib.): Thank you, Mr. Chairman.

I thank the presenters for their comments.

As a cautionary note, every time I hear the words “discussion paper”.... There are many discussion papers that are floated around. How many of them are actually used in the end or implemented is a different case, and I know the one you're talking about with regard to Environment Canada. Rather than explain it as maybe fact, let's say there are floated different scenarios. We'll see what happens, particularly once the budget comes, and then we'll look at implementation issues.

With regard to the Canadian Chamber of Commerce, you talked about incentives. We certainly don't disagree there.

On the issue of penalties, obviously the key is how those who started early should in fact be rewarded. The question is, where do you put the timeline? How far back do you go? You have to have some cutoff point. With penalties, you obviously have to go after those in any sector who in fact have invested, have understood the message, and have moved forward, and others who are waiting and in fact lag behind. I don't think it's fair that those who in fact have invested, often, in the climate change issue should be penalized themselves by the fact that others.... The government, I think, needs to have a carrot-and-stick approach. I would like you maybe to comment on that penalty aspect, because you seem to downplay it a bit.

Like Mr. Cullen, I notice that your presentation today and your comments were, shall I say, less vitriolic than I have seen in the papers. I never believe anything I read in the papers.

● (1245)

Mrs. Nancy Hughes Anthony: Those darn journalists, Mr. Wilfert.

Hon. Bryon Wilfert: It's those darn journalists, I know.

But the good news is that much of what you presented I agree with. I think we have to get over the issue. It's an international treaty. Canada does not sign international treaties unless we can meet our targets.

This minister has made it very clear, and I'm going to make it very clear again to my skeptical Conservative-Alliance friends as well, that we are going to make sure this is in fact dealt with in a way in which economic competitiveness and the environment are not mutually exclusive and in fact can work together. I believe the minister has made that extremely clear. We are working, I think very effectively, with other departments. I would just say, wait to see what the budget brings down.

I'd certainly look for any comments there.

I met Mr. Mallett earlier last week. I have to say, as Mr. McGuinty did, he offers very good food for thought, and I think it's very important in terms of the types of investments we might be looking at to encourage the technology advancement we want to see happen.

The Chair: Mr. Bramley, perhaps you would like to respond. And then you could bring what you wished to also respond to Mr. Watson.

Mr. Matthew Bramley: Mr. Wilfert referred to the Environment Canada discussion paper, which I referred to in my presentation, with regard to the potential loophole of a technology investment fund as an option for large final emitters to comply with targets. I very much hope this not a fact, because if it is this is a very serious additional weakening of the regime for large final emitters. I made a presentation referring to that potential weakening purely to draw the attention of the members of the committee to the potential of effectively opening up a further hole in the federal plan. So I hope very much that will not be a decision that is made by the government when it finalizes the plan.

There was an earlier question about the price mechanism. I simply wanted to mention that sometimes when you talk to economists they like to talk about the price mechanism as though it were the only mechanism to achieve change. And of course there are other mechanisms as well, notably regulated standards. When we come to consumers, who are consumers of energy-consuming products—houses, vehicles, and appliances—in all those three cases, houses, vehicles, and appliances, governments can and should regulate strong energy efficiency standards that then help consumers to consume less energy. So you don't have to rely purely on the price mechanism to affect consumer behaviour.

The Chair: Thank you, Mr. Bramley, and thank you, Mr. Wilfert.

We'll now go to Mr. Simard.

[*Translation*]

Mr. Christian Simard (Beauport—Limoilou, BQ): I admit I was somewhat flabbergasted when I heard we had to forget about tomorrow despite the fact that the Kyoto Protocol is a binding international agreement. We are dealing with this country's contribution to a plan meant to save the planet. It is therefore quite fundamental.

My question is for Mr. Bramley. The idea that some reduction targets would be counted twice is what I would qualify, at the very least, as intellectual fraud—we are dealing, after all, with 18 megatons; I see the weak points, and I am very worried that the next budget may contain additional expenditures to support voluntary measures which, up until now, have led to the failure of the Canadian policy on containing emissions and meeting Kyoto commitments.

According to you, what measures should be found in the February 23 budget and in the action plan, at the very least, to really reach the Kyoto targets?

Mr. Matthew Bramley: With respect to large final emitters, according to us, the government must absolutely maintain its 55-megaton target for the tradable permits system. We see no economic justification for lowering this target. We need a clear answer when it comes to double counting of targeted measures. I have been asking this question for two years. I asked it in March, just before the elections, when I appeared before this committee. I have never received a clear answer from officials working on these issues as to how we could ensure that targeted measures for large emitters were going to lead to further emissions reductions, in addition to those that are due to the tradable permits system.

There are two ways of doing this. We could adjust the targets under the tradable permits system, to include the effect of targeted measures. Eventually, we could also require that industries receiving financial incentives return permits to government, so as to avoid double counting of emission reductions. The government must offer clear answers to these questions.

Finally, to deal with the plan as a whole, over the seven years which have basically been wasted since the Kyoto conference, very few policies have been implemented by governments in order to really curb emissions. We have wasted seven years, for all intents and purposes. We have now gotten to a point where it is impossible to reach Kyoto targets through domestic measures alone. That means that in some ways we are now forced to buy international credits. Obviously, we don't want too many credits to be bought. We must therefore absolutely focus on urgent and reasonable domestic action, through a regulatory approach, yes, combined with incentives.

● (1250)

Simard, Christian Member : Now, if Canada buys a large number of international credits, we believe Quebeckers will be paying double, and that they will have to pay for 25% of these credits, despite the fact that Quebec's performance is relatively good in terms of greenhouse gas abatement. But Canadians as a whole will also have to pay double. Their industrial base will be less effective and less competitive than that of other countries because they won't have developed new technologies, and they will have to bear the burden brought on by the government's inertia and its inability to control large final emitters, in other words, the industries represented here today.

Do you agree with me?

Mr. Matthew Bramley: I agree with you insofar as the purchase of international credits does not necessarily lead to economic benefits for Canada. However, the purchase of some of these credits may lead to economic benefits. That would be the case if Canadian technology-exporting companies were involved. It is therefore obvious that in order to maximize the side benefits of greenhouse gas abatement, we have to reduce them as much as possible here, within Canada.

Having said, I think we have to be realistic. Economic assessments now demonstrate that it is no longer realistic to believe everything can be done within Canada. We are now compelled to buy some credits. We must target these purchases to support good environmental projects which, if at all possible, will bring economic benefits for the Canadian companies involved.

[*English*]

The Chair: Thank you.

I think we have time just for a couple of questions, Mr. Cullen, and then we'll finish off with Mr. Jean.

Mr. Nathan Cullen: This is great. We usually don't get to this round of questions, and I wasn't expecting them.

I'd like to follow up on Mr. McGuinty's question, because I didn't hear enough—perhaps from Mrs. Hughes Anthony or Mr. Cleland—with respect to NAFTA and the approaches we can use through it in terms of competitiveness regimes.

Oftentimes we hear of NAFTA, and particularly chapter 11, in the negative sense of the words—anti-competition and the encroachment upon Canadian sovereignty with respect to how we conduct business here. Do you see opportunities with the more progressive approach taken in some particular U.S. states—not necessarily officially by the U.S. government, let's just focus on energy and energy consumption and movement for a moment—that we could highlight to push Canada further down this line?

Mr. Michael Cleland: I think the short answer to your question is yes. There are all sorts of examples in U.S. states of some pretty positive things. There are some other examples of things that may not be entirely realistic, and in declarations of what they intend to achieve that may not be matched by the kinds of measures, but there's no question that there are things going on in the U.S. that are very innovative in public policy terms—something we should be working with our American colleagues on.

Whether or not you could use the actual formal NAFTA framework is less clear to me. I will say, though, I think Mr. McGuinty's point is extremely well taken. We work with the U.S., and Mr. Konow works with the U.S., on matters related to electricity reliability, on electricity interconnections, on pipelines, on producing, on developing gas resources, and on and on. We worry about energy security, but the discussions on climate change are down the hall somewhere; they're not connected.

So I absolutely agree that we need to be thinking of it in a context of North America, in a context where you bring energy and environment together, and indeed picking up on some of the interesting things that are going on at the state level—and for that matter at the provincial level in Canada. It doesn't all happen, by any means, at a level of the national government.

● (1255)

Mr. Nathan Cullen: To follow up on that for a second, the principal agency you folks deal with is NRCan, I would imagine, for most of your dealings.

Mr. Michael Cleland: That's correct.

Mr. Nathan Cullen: We've had a scenario depicted for us a number of times by different witnesses of the tension that exists between Environment Canada and NRCan on this file. We had some correlation on the dithering aspect that's been going on in Ottawa. Some of it has been attributed to the fact that NRCan and Environment Canada don't see eye to eye, on the Kyoto file in particular.

Do you suspect that within your member groups there would be some interest in advocating for coalition-building between these two, and essentially removal of these two departments or creation of a separate Kyoto secretariat, to offer certainty and clarity to the business sector and the energy sector in particular? This in-fighting we hear about consistently—and you may see one side of it—is such that nothing, essentially, or not much, gets done.

I would take some minor exception to Mr. McGuinty's point about liking Mr. Mercer's commercials. I find them actually offensive, because I'm thinking of the tax dollars going out there in the most ineffective way I could imagine in something that doesn't make any sense to 90% of the people I've talked to, who have no concept, as you say, Mrs. Hughes Anthony, of what it means. I find it offensive as a taxpayer to pay this.

With respect to the two departments' needing some focus with respect to Kyoto, would your groups be advocating for either a separate secretariat, or would you see some profitability in having only one department responsible for both Kyoto and energy?

Mr. Michael Cleland: Let me preface my comments. I could actually go on, Mr. Chair, for quite a long time on this, given I used to be the ADM of the energy sector at NRCan and so come at it with several biases. I certainly know it very well.

In fairness, I think you have to understand that it reflects different world views. Natural Resources Canada brings to the debate a view of the energy and resource sector and of how it fits into the Canadian economy. Environment Canada brings to the debate a perspective specifically driven by the idea of environmental protection. Those are legitimately different world views that need to be debated around the policy table.

I think trying to squeeze that out inside the bureaucracy is actually a bad idea. If anything, what you need to do is make sure that what comes to the cabinet table is the different perspectives and make sure they get resolved around the cabinet table, because those are political questions. Ministers and parliamentarians are the people who need to be resolving them. If you bury them in the bureaucracy, and on top of that spend a whole bunch of the next two years—or the next five years, as the case may be—trying to rebuild bureaucratic machinery, you're just going to lose more time. I would say no, that's probably not the right way to do it.

There are different views on this issue, as you're seeing. I think reasonable people will differ, and at the end of the day those are political judgments as to how you resolve them. You can't ask the bureaucrats to fix them.

The Chair: Thank you, Mr. Cleland.

Mr. McGuinty, and then Mr. Jean to finish.

Thank you for your indulgence. We're just a little over time, but I think this line of questioning is very helpful.

Mr. McGuinty.

Mr. David McGuinty: Thank you, Mr. Chairman.

I'd like to go back to comments made by Mrs. Hughes Anthony about commitment period number two. I think I heard you say we really shouldn't be preparing or participating in period number two without the participation of India, China, and the United States as a condition precedent.

There are two things I wanted to get a response to from you, and perhaps from any other member of the panel.

First, this is an international, public law environmental treaty. It's a fledgling treaty. It's the first international treaty that really stops the fiction involved in the notion that there are multiple atmospheres. There aren't; there's just one.

There are those who would argue that the enforceability of this treaty is weak at best, that there are no real mechanisms to enforce it, and that no state will be able to come to the table with clean hands under international public law and enforce it. I'm not so sure that's the case, yet there are those who would argue with respect to India, China, and the U.S. being a condition precedent that western Europe and North America built their economies on the back of the atmosphere, leaving the Chinese, the Indians, and the majority of the developing world and emerging economies in the dust, for whatever reason. They would argue that it is the responsibility of the west and the industrialized wealthy to lead the way and show that we are serious about reflecting the fact that there is only one atmosphere.

I just wanted to put that to you and get a response.

● (1300)

Mrs. Nancy Hughes Anthony: I'm sure you'll tell me to respond briefly, Mr. Chair.

My major objection is the question how we can go into another commitment period when we do not have that cohesive, pan-Canadian plan of our own right now. We couldn't lecture to China or India about how to do it, because we don't have a plan. There's no doubt we have to be taking measures on climate change, and I can't stress enough that we have to be doing that, but I think in order to provide the kind of leadership you're talking about we'd like to be able to say this is Canada's plan, this is what we are pushing for, these are the carrots, and these are the sticks we have put together in this particular plan. Then I think we would be in some position to give advice to others. But I don't think, under the current circumstances, we could demonstrate that leadership.

The Chair: Thank you, Mrs. Anthony.

Mr. Jean. We'll finish up now.

Mr. Brian Jean: I'm wondering if there are any studies relating to the influence of an investment on a gross domestic product. For instance, on oil and gas, I know there has been, as Mr. Cullen said, something like $6 billion or $10 billion in the last six years, but there's also $16 billion to $25 billion put back yearly from the oil and gas sector in my area. I'm wondering if there are any studies that relate to the return on investment of federal government moneys that any of the presenters here today are aware of.

Mr. Matthew Bramley: Our study focused on federal government expenditure in quantifying that, which is in itself a pretty complex task, and did not attempt to quantify a return on investment.

The Chair: Mr. Cleland.

Mr. Michael Cleland: There's no straightforward answer to that question. The problem is that when you look at government's return on investment from subsidies of any sort, it's pretty hard to get a very meaningful answer, because it's not the nature of government to look at its accounting in that sense.

There are a variety of studies looking at this subsidy issue. Mr. Bramley has cited one. All I can say is that it might repay your committee to look at some of the other work that has been done—including, I might add, some testimony that I gave at an earlier version of this committee some years ago when I was at NRCan, and I would argue that much of the obstensible subsidies that were being talked about here are a bit of mythology. The playing field is much more level than a lot of people might think.

I strongly urge that you call on some people such as the upstream petroleum industry to bring forth some information on that.

The Chair: Thank you.

Just as a thought, the Auditor General is charged with looking at value-for-money issues, Mr. Jean. That's an interesting approach that perhaps we would take up when we have the Auditor General here.

Mr. Brian Jean: That wouldn't be bad.

The specifics of the oil sands industry are that, for instance, on Friday, there was a $10-billion project announced by Horizon. The reason that is so large is because you can't start an oil sands project without $5 billion or $10 billion. That's why the government intervention, for the most part, is needed, to get some sort of return on investment to taxpayers.

The Chair: I see. Thank you very much.

On that note, witnesses, thank you very much for your input. It was balanced, and it has helped the committee to understand a very wide spectrum with respect to the issue of Kyoto, its implementation. As you can see, the committee is attempting to use these discussions and the input to look at that climate action plan and to have a balanced and strategic plan. Your input today has been very helpful to the committee.

Thank you to the members of the committee.

We now stand adjourned.

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