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Chair

Mr. Alan Tonks

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● (1110)

[*English*]

The Chair (Mr. Alan Tonks (York South—Weston, Lib.)): Good morning, members of the committee. Bonjour.

To our witnesses, welcome. Ladies and gentlemen who are viewing these proceedings, thank you for being with us.

The orders of the day today are, pursuant to Standing Order 108 (2), a study onCanada's implementation of the KyotoProtocol, part I, “Setting the Stage: TheCurrent Situation”. The current situation has been with us for a while.

Today as our witnesses we have, from the International Institute for SustainableDevelopment, David Runnalls; from the Sierra Club of Canada, B.C. chapter, John Bennett, directorof the energy and atmosphere campaign; and from Natsource, Jack Cogen, president, and Doug Russell, managing director. We welcome you, and we thank you for being here today.

We can go in any order, but I would suggest we stay in the order we have on the agenda. The routine is that we have about ten minutes each for deputations. We try to keep it within that, give or take a minute or so. Then we go down the parties according to a routine we have; they have 10 minutes to ask questions and engage in a dialogue through a question and answer period. That's the format.

Without any further ado, perhaps we can start off with the International Institute for SustainableDevelopment. David Runnalls, perhaps you would like to lead off.

Mr. David Runnalls (President, International Institute for Sustainable Development): Thank you very much, Mr. Chairman, and thank you and the other members for the opportunity to appear before you this morning. Kyoto is much in the news, as you all know, not just because of its entering into force yesterday.

I'd like to talk about three things this morning, if I may. One is what are called the Kyoto mechanisms; the second is Canada's engagement with developing countries on climate change; and the third is our potential role in developing a post-Kyoto regime. It may seem a bit absurd to be talking about what happens after Kyoto in 2012, but it's not too soon to begin to do that.

I'd like to begin by saying that when Canada signed on to its Kyoto protocol target, to 6% below 1990 levels, it only agreed to do so at that point because it would be able to acquire reduction credits through low-cost investments outside its borders. It's always been rather ironic to me that the system, which Jack is going to describe to you in a minute, was designed to satisfy Canada and the United States, and strangely enough it's Europe that's actually rushing ahead with implementing an emissions trading system. When the protocol was being negotiated, the strongest supporters for the Kyoto mechanisms were the energy-intensive industries and provinces, and its most vocal opponent was the EU. So the table has turned in an interesting way.

I would suggest to you, Mr. Chairman, that there are four benefits from the use of the Kyoto mechanisms, if they are properly designed and implemented: one, they'll significantly reduce the cost of compliance for Canada to meet its target; two, they will signal that Canada does plan to be an important player in the growing global carbon trading market; three, they will provide Canadian clean technologies with technology funding opportunities; and four, they will help provide Canada with an opportunity to demonstrate global leadership.

There are two broad types of mechanisms, and I'm sure we'll hear more from our colleagues later on.

The first, broadly speaking, are called project-based mechanisms. There are two of them. One is the clean development mechanism, which would allow Canadian investors to invest in projects in developing countries that reduce emissions in those countries. Those credits are now available as of this day, or those projects can be pursued these days.

The second is joint implementation, which is a project-based mechanism for use with other countries that have Kyoto targets. Here it's really the former Soviet Union and eastern Europe we're talking about.

These are theoretically attractive mechanisms, but there are real difficulties with getting the clean development mechanism started and launched. I was heartened to see yesterday, Mr. Chairman, that the Prime Minister has given to the national round table as one of its tasks the job of giving advice to the government on what Canada should be doing about speeding up the approval processes in the clean development mechanism.

I think what we will find, Mr. Chairman, is that we will have to buy, because we have been so late in producing anything that remotely looks like a plan, 80 million to 100 million tonnes a year of emissions on the global market. Because of the transaction costs involved with the project-based mechanisms, many of these will have to come from buying what are known as allowances.

This has become a controversial issue. This is, at one end of the spectrum, the so-called hot air issue. In theory, we could completely meet our targets by simply purchasing excess credits from a country like Russia, which has a huge amount of surplus emissions credits available as a result of both its moderate Kyoto targets and the fact that it's had constant economic difficulties since the overthrow of the Soviet Union. I don't think anybody is in favour of that kind of hot air purchase. I heard the finance minister say before you the other day that Canada would not engage in those sorts of purchases.

So where does this get us? We need to engage in international purchases to meet our targets, we're not going to buy hot air, and there will be limited amounts of credit available under the clean development mechanism.

Given this context, Mr. Chairman, I'd suggest to you that Canada needs to give particular attention to more creative avenues through which to engage in the international purchases. I suggest to you that it's something called “green investment schemes”. Let me just very quickly describe to you what I mean.

● (1115)

In response to the concerns expressed about these hot air transactions some four years ago, the Russians launched the concept of green investment schemes. It's a relatively simple idea. Revenues collected through internationalemissions trading could be earmarked for environmentally related purposes in the sellercountries, and the purchasing countries—and this is important for Canada—could also use it as a way of promoting appropriate climate-friendly technologies.

The attraction of this is that because it is an emissions trading agreement it would not besubject to the same high transaction costs as the other two mechanisms, and a well-functioning GIS could ensure that revenue generatedthrough the sale of emission permits is not misused and instead is spent on projects that willprovide long-term benefits. It can also be used as amechanism to promote and diffuse climate-friendly technologies.

Under a green investment scheme, a condition of the international purchase made by Canada would be that therevenue gained by, for example, the Ukraine would be earmarked for a specified use. Financialflows could be directed toward projects that lead to additional emission reductions or that clearlydemonstrate that they have helped to build capacity in Ukraine to address climate change, contribute to local sustainable development objectives, and contribute to Canadian values andinterests.

People in my part of the world have a real interest in the success of the new government of President Yushchenko, as seen by the number of western Canadians of Ukrainian extraction who went as observers to the elections.

Just as an example of the way in which one of these projects could work, the principal supporter of Kyoto ratification in Russia was not the environment ministry; it was the energy ministry. This is largely because the Russian and Ukrainian energy industry suffers from chronic under-investment, poor technology, and bad operating practices. Pipelines, for example, in the former Soviet Union leak like sieves.

Guess who is good at repairing pipelines that leak? It's companies based probably within a 60- or 70-mile radius of Calgary. There is a real possibility for constructing schemes that would yield up credits at a reasonable price for Canada, that would provide jobs in Canada for Canadian companies, and that would help to create export markets for Canadian energy technology companies in what will the largest oil exporter in the world over the next 10 years.

We're not the only people to whom this has occurred. Amongst others, Japan, Denmark, and the Netherlands will be substantial net purchasers of credits for the same reason. The EU and Japan are already talking with Russia, the Ukraine, Bulgaria, and Romania to conclude GIS agreements.

I would suggest that this committee might want to recommend—to the finance department particularly—that there's a pretty high priority placed on Canada's entering these discussions.

Second, Mr. Chairman, I would like to touch on the post-2012 regime. It sounds like a long time, but when you start talking to people from the energy industry, seven or eight years isn't very long. As you know, the Kyoto regime does not involve developing countries at the moment, in terms of assuming commitments, or the United States. Canada needs to invest in these major emitting countries, such as China, India, and Russia, so that they can see on the ground that sustainable measures that reduce greenhouse gas emissions can work to the good of the economy.

Negotiations regarding the structure and goals of a second commitment period could begin as early as this November in Montreal, now that we've agreed to host the next meeting of the Conference of the Parties. By demonstrating to non-Kyoto and developing-country parties that industrialized countries are committed to meeting their reduction targets, Canada can show that it's possible to reduce greenhouse gas emissions while maintaining economic growth, and can put in place the carbon markets and the tools and incentives needed to demonstrate the benefits of participating.

We have an opportunity to lay the groundwork for effective engagement of key developing countries in March, when the United Kingdom hosts a meeting of energy and environment ministers from about 20 countries. Prime Minister Blair has made climate change a focus area for his tenure in the G-8 and as president of the EU, including engaging the United States in key developing countries. It's critical in my mind, Mr. Chairman, that Canada fully support Prime Minister Blair in his efforts to achieve these aims.

● (1120)

Before closing, Mr. Chairman, I would also like to note the continuing and critical need to assist developing countries in dealing with climate change. It's the most vulnerable members of our global community who are expected to experience the greatest adverse effects of the impacts of climate change. We've already seen this with the Dene and the Inuit people in the north of Canada, and we will now see it for the people of small island states and sub-Saharan Africa.

The one consistently bright picture Canada has shown in the last 10 years of negotiations has been in the area of financial and capacity-building support to developing countries. That, however, is now in some danger. The Canada Climate Change Development Fund terminates at the end of March with no clear plans yet in place for its replacement. The CCCDF has played a critical role in demonstrating to developing countries Canada's commitment to the climate change issue, and I urge this committee to recommend to the government that it immediately develop plans for its successor. This is even more urgent given our offer to host the next meeting of the CCAF.

Thanks very much, Mr. Chairman. That concludes my remarks. I look forward to your questions.

The Chair: Thank you very much, Mr. Runnalls. That's right on time, too. We were following along with the brief that had been distributed to members of the committee.

Perhaps we can now go to the Sierra Club of Canada, John Bennett, director.

John, thank you for being here.

Mr. John Bennett (Director, Energy and Atmosphere Campaign, Sierra Club of Canada (B.C. Chapter)): I'd like to make a quick correction at the beginning. I don't actually just speak for the B.C. chapter of the Sierra Club of Canada. I speak for the Sierra Club of Canada, and of course the B.C. chapter is part of it.

I'd first like to express Elizabeth May's regrets that she couldn't be here today. She was looking forward to it, but she's not available.

I'd like to point out that I also represent the Climate Action Network of Canada, which, with over 100 organizations large and small located in all the provinces and two of the territories in Canada, has for the last 16 years worked on pushing the climate change file forward. We're going to continue doing that.

There are three points I'd like to raise as well. I want to start off by saying I've worked on energy issues in Canada for almost three decades now, the last six years here in Ottawa on climate change in particular. The three areas I want to address are unfair subsidies in Canada for the most dangerous and most polluting technologies, a few words on the present plan, and I'd like to finish my remarks by talking about cars and car regulation.

First, if I had been in this room in 1938 and had told you that over the next six years we would take our armed forces from 5,000 people and a few boats to over one million people fully armed and equipped with equipment and clothing built and made in Canada, that we would have revolutionized our entire industry sector, and that 10 years following that we would have it entirely paid for, you probably wouldn't have thought it was possible. I'm sure there were plenty of people at the time who didn't think it was possible, but that's what happened during World War II.

When we saw a problem that was global in nature, and Canadians decided to become part of it because it was the right thing to do, they figured out how to do it and did it in tremendous fashion. I've always wondered, in all these discussions about our inability to reduce our greenhouse gas emissions, why it was that our grandfathers were so much smarter than we are. They had an ability to shift their entire economy overnight in order to meet a pressing problem, yet for us it's impossible. Why is that? They didn't have computers, they didn't have advanced technology, yet they could do it. We can't.

As for subsidies, a few weeks ago the Climate Action Network released a report in which we identified $1.4 billion in annual subsidies going towards the oil and gas industry in Canada. Since 1996, over $8 billion has been handed over in these subsidies to one of the richest and most successful industries we have. That compares to a little over $3 billion that has been announced about Kyoto, and not all of it has been spent. In fact, while we've been talking about reducing emissions, we've been paying people to increase them.

I also have here with me today a few media reports about the recent performance of the oil industry. The *Globe and Mail* has reported recently that Shell last year made $1.29 billion in profit, that Suncor made $1 billion, and Imperial Oil over $2 billion in profit—in the last year alone—yet we handed over to these industries $1.4 billion in subsidies. Most people who receive welfare in this country, once they get a job and are making a good living, are cut off welfare. I think we should be doing the same thing to polluting industries.

It's also clear from another recent article just yesterday or the day before yesterday in the *Globe and Mail* that in fact the request that's been made of the oil industries to reduce the growth of their emissions..... Under the Kyoto plan as it is presently stated, the oil and gas emissions will rise almost 30% over the next five or six years. Of that, the oil sands will increase something like 300%, and the cost of that will only be about 25¢ a barrel. Yet even at that, the technology is already available to make the investments to reduce those emissions and meet those targets profitably for the industry; yet the industry continues to lobby against Kyoto and tries to reduce the demands made of it.

I'm quite confident you will probably have heard at some point from the nuclear industry, talking about a renaissance in nuclear. We have invested in the nuclear industry, from the federal budget, over $17 billion over the last 40 years and we continue to give them $100 million to $200 million a year. This to an industry that hasn't produced one new watt of electricity in Canada for over 15 years and in fact has contributed to the breakdown of the entire system in Ontario and the bankruptcy of the largest public utility in North America.

In Ontario we now owe $20 billion in what's called stranded debt that is the direct result of relying on nuclear power. Yet we continue to invest in it in Canada to the tune of $100 million a year.

● (1125)

To put that in context, we have allotted the wind industry—which over the last five or six years has grown to almost 500 megawatts—$225 million over five years. So we're still spending $5 on nuclear power and getting nothing, in contrast with wind power, where we spend $1 and get some electricity back.

These kinds of perverse subsidies don't belong in a regime of trying to reduce greenhouse gas emissions. We should be putting our money where it's going to do some good, which takes me, of course, to the present plan. I basically have three comments about the present plan.

It's too small. It thinks too small; it has an outlook of minor adjustment rather than radical change. It ignores the potential for demand management. The Climate Action Network of Canada and the David Suzuki Foundation published a report in 2002 that indicated that by putting demand management as the centrepiece of our campaign to reduce emissions, we could actually have exceeded the Kyoto target by about 40 megatons had we started in 2002. And we would have done that without resorting to overseas purchases of credits, because the waste of energy is really the sweet fruit of working on Kyoto. We waste about half the energy we produce in this country, and if we started investing in conservation and efficiency the way we invest in new generation, we'd find that it's much more profitable, much quicker in return, and much better for public health and for the pocketbooks of Canadians.

The present plan also ignores cogeneration. There are between 4,000 and 10,000 megawatts of potential generation from cogeneration. Cogeneration, of course, is where plants or even buildings are producing heat when they could be producing electricity at the same time. We have technology, developed in Canada, that actually could allow every arena in the country to be producing electricity to meet its own needs and those of people outside the arena itself. Every large building that heats with natural gas could be a generation source in Canada with no increase in emissions, yet there is nothing in the present plan to address cogeneration and to make it happen.

The final point on the present plan is that it absolutely ignores regulation and the value of regulation. If you go to Sears today to buy any one of the fridges—not even the most energy-efficient fridge—it will be at least 50% more energy efficient than the fridge you purchased in 1990. That change was achieved not by a voluntary negotiation with industry but by a regulation that required refrigerators to become more efficient.

That change did not cost anything, because all technology is constantly being redesigned, and if you tell an industry to redesign to be efficient as well as changing to having nice colours and fit into the proper size for the kitchen, you in fact don't have any appreciable costs. In fact, you're saving every Canadian huge amounts of money.

Elizabeth May, my executive director, recently purchased a new refrigerator for her house, but with that one purchase she beat the one-tonne challenge, because the improvement in efficiency from an old fridge to a new fridge is so extreme. Yet there is no assistance in Canada for individuals to purchase more efficient equipment.

Talking about regulation takes us to cars, which has been my personal focus for most of the last two years. We are asking the car industry to use presently known and in-use technology to meet a 25% target, which we know is not sufficient to meet the needs of Kyoto and we know is not the need for the long term. And we're asking them to do it voluntarily.

Mr. Efford was quoted in today's newspapers as saying yesterday in the House that the car industry has voluntarily honoured 14 agreements in the last 20 years or so. If he had been completely candid, he would have said that, by the way, those 14 agreements are actually enforced in the United States under the CAFE law, in which the EPA fines those companies $5,000 per car if they don't make the targets. That's why we have vehicles now that are 200% more efficient than we had in the 1970s—because of one law passed in the United States in the late 1970s. Canada wants to go beyond that. We won't go beyond it unless we have regulation.

● (1130)

If the car industry is volunteering to do this, why is it four years later and we still don't know what they're doing? And why, if it's just a 25% fuel economy increase, are there secret negotiations? What's being said in secret negotiations that has to do with this? Either they're volunteering to meet the target of 25% or they're not. Keep in mind that this standard is technically feasible today. There's no reason why we don't have those cars on the road today.

Well, I guess there is a reason. It's because Canada and the United States have refused to do what they should have done all along, which is to continually improve the efficiency standards that vehicle manufacturers are required to meet. Unless we have a regime in place that requires that, the car manufacturers will use loopholes, as they did in terms of light trucks, so that instead of having a mostly passenger car fleet we now have an almost equally divided passenger car fleet and light truck fleet.You could describe it as a loophole they used a truck to drive through.

So we need to have regulations. I would strongly advocate—and ask you to recommend—that regulations be the basis of a new Kyoto plan: regulations based on available technology, based on what's achievable, but regulations that have sanctions and rules and reporting so that we can see progress and can ensure progress. That's the only way.

We're all told when we go to take our first driver's test that a licence is a privilege, not a right. Then once we achieve that driver's licence we agree voluntarily that we won't speed, we won't park overtime, we won't go through lights. But if we do, we pay a fine. Why don't the car industries have the same kinds of rules?

Thank you very much, Mr. Chairman.

The Chair: Thank you, Mr. Bennett.

We'll now go to Mr. Cogen, president of Natsource.

Mr. Jack Cogen (President, Natsource): Thank you, Mr. Chairman and honourable committee members.

Thank you for the opportunity to speak with you this morning about the global market for greenhouse emission reduction credits and the role that emissions trading will play in delivering real, tangible environmental results at the lowest possible cost. The carbon or GHG or greenhouse gas market has increased significantly during the past two years and is expected to continue growing as nations increase efforts to implement the provisions under the Kyoto Protocol and achieve their emission reduction obligations.

Point Carbon, one of the industry news sources, had an article yesterday saying it was their estimate from their analysis that by 2010 the international greenhouse gas market would be about 16 billion euros in size, to give you an idea of what people are thinking.

This morning I would like to leave you with three key points. First, the greenhouse gas emissions market is growing and will continue to do so. Second, governments have been active buyers in the market, and their involvement will also grow. The private sector has significant market expertise to offer to ensure that governments get the highest value for their money. The private sector has expertise in evaluating projects, in contracting and utilizing risk management techniques that will benefit government in its efforts. And third, Natsource, my firm, believes in the power of markets to reduce compliance costs and has illustrated this commitment by spending millions of dollars to build on Canadian expertise in the development of one of the first private sector compliance funds in the world, which should be launching within the next 60 days.

I will preface my further remarks with saying that, as I guess any witness does, in my trading world we call this “talking your book”, which really means that clearly in the things I am advocating I will have a personal stake and will profit from. I like to put those disclaimers out, that I'm not a neutral observer of this at all.

I believe some background material was circulated for this presentation, some pretty slides. If I may, I'd like to make reference to a few of the slides as I speak, starting on slide three, which is a set of boxes.

It shows that most developed countries that have ratified the Kyoto Protocol have engaged in or are planning to engage in the market. The European Union is furthest along, having implemented phase one of their trading system at the start of this year. The Netherlands, Denmark, Austria, Spain, Italy, Sweden, Norway, Finland, and others have all initiated efforts to purchase reductions as an element of their Kyoto strategies.

The global carbon market doubled from 2002 to 2003. In my judgment, although the numbers aren't out yet, it's doubled again between 2003 and 2004 and will likely continue that fairly exponential trend in 2005. These numbers are conservative, in that we don't know about all the trades, and we excluded from our data others that we cannot confirm.

For any market to operate there has to be supply and demand. We estimate that on the demand side there are approximately three billion tonnes of demand for the Kyoto period of 2008 through 2012 between Canada, Japan, and Europe. Based on current emission trends and in the absence of additional policy measures, Japan is expected to be short of their target by approximately one billion tonnes, Europe by 800 million tonnes, and Canada by 1.2 billion tonnes.

We further estimate that the supply, in the form of Kyoto-compliant project-based emissions reductions in developing countries and of green investment initiatives in eastern Europe and the former Soviet Union, could meet such demand. However, as in all markets, these forces will change in ways that cannot be envisioned.

On February 15, Mr. Dion stated that Canada will be purchasing only green credits, those that correspond to real reductions in greenhouse gases. This position is similar to that of other countries. Few want to purchase un-greened Russian credits. Competition for emissions reductions tied directly to projects could grow over time.

Availability of supply will depend on factors such as the approval process of the CDM executive board and the price signals provided to project developers. Once again, these dynamics cannot be known. Right now we know that the great majority of firms have not participated in the market to meet their reduction requirements, and prices could increase when they do. Given this, we believe Canada will be able to manage price risk if it engages the market in the near term.

● (1135)

If we look at slide five, you'll see a chart that shows prices as of last week in Europe. Project-based emission reductions from developing countries—CERs, as they are listed on the chart—range from $240 to $880 Canadian dollars. Project-based emissions from developed countries or from economies in transition are slightly more expensive and trading in a narrower band, from $640 to $960.

In comparison, government-issued EU emission allowances—the EUAs on the chart—are trading at higher prices in a much narrower ranger. They've been from $1,135 to $1,185. This is because there are fewer risks in purchasing allowances, the reductions created from projects. There's no default delivery. It is actually the compliance instrument that industry needs, so they will pay a definite premium for it.

In fact, as I was coming in here today, looking at my BlackBerry —being a good BlackBerry addict, like most people I know these days—the European allowance market broke through the resistance level and actually closed today at about €780. You can do the math of what it is in Canadian dollars, but it's breaking out of the range; it seems to be going up at the moment.

In some other key developments, Natsource, as one of the providers of transaction services, has assisted the World Bank to assess the carbon market over the past four years. Slides 8 through 12 provide a summary of the most recent report, covering the period up to April 2004.

In addition to the rapid growth of the market, to which I alluded earlier, I'd highlight the following. On slide 10, the emissions reductions coming from projects are real and come from deployment of a wide range of technologies, many of which are technologies that Canadian firms are providing to the world market. Half of the reductions are created from projects in the power sector, resulting in energy savings, reduction of local air pollution, and enhanced export opportunities for technology providers. In fact, two days ago we signed a letter of intent with a Canadian company that's working on a methane capture for a landfill gas project in Brazil. It's certainly Canadian technology that's being used, and it's being done by a Canadian developer.

On slide 11 you'll see that the majority of emission reductions sold from developing countries are created in Asia and Latin America, two markets of importance to Canada. Latin America leads the way in the number of actual projects. The Asian market has been characterized by a smaller number of very large emission reduction projects involving changes to industrial processes, primarily affecting HFC-23 destruction and N_2O.

On slide 12 you'll see that Japan, led by its private sector, has emerged as the largest buyer, representing over 40% of purchases in 2004. The Government of the Netherlands, which pledged in 1998 to meet 50% of its Kyoto commitment by purchasing international credits, represented 23% of the market, while the World Bank carbon funds, purchasing primarily for governments, represented 24% of the market. Canadian firms, whose purchases in 1996 through 2002 represented 33% of the traded volumes, albeit from a smaller global market, have fallen to 13% of the market in 2003 and, we estimate, 3% in 2004. Canadian firms are holding back on purchases as they await decisions regarding the large final emitters trading program.

I'd like to turn now to an issue that you as government policy-makers are grappling with: government purchases of emission reduction credits. In 2003, Natsource was commissioned by the International Emissions Trading Association, the International Energy Agency, and the Electric Power Research Institute to examine the role that national governments will likely play in the global emissions market.

We concluded that first, national governments will be significant buyers and may account for 45% to 75% of all purchases during the Kyoto commitment period.

Second, governments are more likely to act as compliance buyers than permanent market participants. That is to say, the governments will look at their national situations, purchase what they need to meet their Kyoto commitment, and retire those emission reductions against their national account. There would be little to no secondary trading of these emission credits.

Third, the government behaviour and policies regarding purchases and use of emission credits will impact government and private sector compliance costs. That is, to the extent you put conditions on your purchases—must have Canadian involvement, must be of green...[*Inaudible*]...or however you narrow the sector—obviously you will drive up your total compliance costs because you are reducing the supply that's available to meet such cost.

● (1140)

The methods governments choose to make purchases also affect the market and the prices that the taxpayer will pay for reductions. For example, in the early days of the Dutch procurement process a decision was made to use normal government purchasing procedures. A bureaucracy was established, tenders were issued, and purchases were made that resulted in the Dutch government paying the highest prices at the time for GHG emissions reductions.

Similar experiences have taken place in other countries. Additionally, governments have minimal experience in evaluating and quantifying the risk that emission reduction projects would deliver the tonnes that are contracted for. The carbon market has matured since then, and there are now a number of private sector purchasing vehicles that governments can use to assist them to get good prices and assure the tonnes are delivered.

Finally, and I will conclude on this point, Natsource believes in the ability of markets to deliver high-quality compliance emissions reductions in a cost-effective fashion. To illustrate our commitment, Natsource has invested a little over $2 million to develop a GHG compliance fund. We drew on Canadian expertise, developing the fund with eight Canadian companies, and incorporated in Calgary with a view to helping Canadian firms comply with impending regulations at the lowest possible cost. Our anchor investor was a Canadian firm. We will be announcing the first close of this buyers' pool in the next couple of weeks—knock on wood, since I'm a little superstitious.

Ironically, due in large part to the uncertainty as to whether the Kyoto Protocol will enter into force and the design of the large final emitter program, Canadian firms have by and large stayed on the sidelines. Consequently, this first close will feature primarily Japanese and European entities. Our hope is that the new Canadian plan will spur heightened interest by both the Canadian private sector and the Canadian government in this made-in-Canada solution to participate in the growing global market. Of the nine Canadian entities that participated in the design, one is actually entering the group, and for the rest, although that work was paid for and developed in Canada, the benefits are going to Japanese and European firms.

Thank you for your attention, Mr. Chairman.

Either I or my colleague Doug Russell, who's the managing director in our Ottawa office, would be pleased to answer any questions.

● (1145)

The Chair: Thank you, Mr. Cogen. We do understand that sometime in the next while you're going to have to leave, so we appreciate that Mr. Russell is here to answer any questions.

Thank you to all the witnesses. This is a very complex area we're dealing with, one that needs further discussion. This is very helpful to the committee and, I'm sure, to our public who are listening. We appreciate the input that all of you have made.

We will now go to the top of the batting order.

Mr. Richardson, perhaps you'd like to lead off, please.

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

I must say the first thing that caught me from the discussion this morning was in your opening—and I'm speaking to Mr. Runnalls—where you said that Canada only agreed to sign on to the Kyoto Protocol because it would be able to acquire reduction credits through low-cost investments outside its borders. I take it, then, this is nothing new. They've known all along that this was the only way they were going to achieve credits.

We've been hearing in the House and in the media in the last couple of days, particularly, because of the anniversary yesterday, that there hasn't been much progress, that there isn't any definable plan recognized by anyone. I'd like to ask all of the witnesses today if we're missing something, or if you have detected a plan. Is there a plan to achieve these credits, and if there is, are you able to identify any progress toward achieving these targets?

Mr. John Bennett: The problem is that we have two plans. There was a plan in 2000 and another plan in 2002. The problem is that the plan isn't finished yet. It will be finished, we're told, and we're very hopeful that it will.

The problem is that the government has been too timid in its first two iterations of its plan to meet the target. There's no reason that if Canada had started to reduce its greenhouse gas emissions aggressively in 1998 after it came back from Kyoto we wouldn't be talking about credits. We've been forced to accept the fact that there might be some credit purchases, but we also support the concept of helping developing countries develop in a cleaner way than we have. We support the fact that Canada has a responsibility to the rest of the world, since we've contributed more than our share of greenhouse gas emissions.

Clearly the plan is coming forward and it's never going to be enough. It will never be good enough. We never had a plan for World War II that was good enough. We just kept improving it and kept trying harder. That's the way we should be approaching this—in a cooperative way rather than a combative one. What's wrong with the government's present approach is the doing it all behind closed doors. When you build secret plans, all you do is create suspicion and discussion about things people don't know about.

We would really like to see a more open way of developing these plans and updating them as we go. We had a very open process in 1998 through 2000—the national process on climate change. I was often quoted up until 2002 about having gone to 100 government meetings, which I had done, to participate in the development of the plan. Subsequent to the plan's release in 2000, I've never had a single invitation to come and talk about the details of the plan—never one. We've been a couple of times called and told what was happening in terms of our large final emitters, but never were we told that there was any contemplation of reducing the target for them, until that came out just after Christmas.

The secrecy is the problem with the plan, not that it doesn't exist. We don't need a secret process to decide these things. They're very public things. Are we going to help people renovate their homes, renovate buildings, or get them good cars? Why do we need to do that behind closed doors?

● (1150)

The Chair: Mr. Runnalls.

Mr. David Runnalls: Could I just address myself to your first remark, Mr. Richardson?

Mr. Lee Richardson: Yes, thank you.

Mr. David Runnalls: All of the Kyoto mechanisms, and particularly emissions trading, were agreed to by the Europeans very reluctantly. They were agreed to by the Europeans because at that stage it was felt that the U.S. would probably ratify Kyoto as well. The United States and Canada insisted on the availability of these mechanisms as part of Kyoto as really a precondition of staying in the negotiations.

It should be of no surprise whatsoever to anybody who has taken part in this process that emissions trading is a major part of the Kyoto process. As I think I mentioned at the beginning, the wonderful *volte-face* in all of this is that the Europeans opposed this tooth and nail. We now have the European Union, as of January 1, having an emissions trading system covering 12,000 different installations in western European, and as I say, the Europeans were the original opponents of this. This has been well ,known to anybody making policy in the Canadian government since 1997 that emissions trading would be a major—

Mr. Lee Richardson: Yes. You said in your remarks that in fact the system was designed to accommodate Canada and the United States. There's some conflict in the sense that we were hopeful...and then Mr. Bennett has just suggested that Canada could have met the targets, had they got off the mark in 1998, without buying credits.

Is that what you were saying, Mr. Bennett?

Mr. John Bennett: Absolutely.

Mr. Lee Richardson: Do you think that's the case, Mr. Runnalls? Could we have achieved without buying offshore...?

Mr. David Runnalls: Yes, we'd certainly be an awful lot closer than we are now. The tyranny of numbers steps in here, because a lot of this is about capital replacement rates. If you're in a business like the electricity business, for example, the longer you take to make a decision the more difficult it is to turn your industry around. My guess is that we could have either reached the targets without the use of the Kyoto mechanism or got very close to that.

Mr. Lee Richardson: Fine, thank you.

I was curious about the charts and graphs on the prices and all this stuff for the money changes. We asked questions the other day and heard from various environmental groups with regard to how much a barrel might be deducted to meet the cost of buying emissions credits. It was suggested it was 25¢, and that was based on a $15 a tonne price. Your numbers today haven't reached that level. How is it that we meet these targets? Is it simply supply and demand? Where do these numbers come from? How did they get to the notion that it's going to be $15 a tonne? It seems like just some great Ponzi scheme to me.

Mr. Jack Cogen: It's not my area of expertise, but there have been a lot of academic studies of modelling supply and demand, at least within the concept of known technologies, and of the marginal cost of abatement in different industries, to figure out what the price should be. The way the market actually functions is by supply and demand, and it's really very simple. You can forget the models and where you think things are going. It's whether you have a willing buyer and a willing seller and you agree on the price.

The prices in the European allowance market right now, which are at a premium to other things, are really the price differential between running a coal-fired power plant and a gas-fired power plant. You can pretty much calculate the price by looking at where the natural gas price, the coal price, and the electricity price are. It's part of the dispatch. It's what you are turning on. If you're turning on a lot of gas, you're going to use fewer allowances. If coal is a lot cheaper to run, you're going to burn more and you're going to need more allowances. That's the European dynamic.

In the world of projects and the CDM, the price is being set by the risk associated with that project. There are an enormous number of risks in doing a landfill methane project in Bolivia, South Africa, or somewhere there. Between the country risk, the credit risk of the operator itself, and the technology, there are an enormous number of things, and all of these go into figuring out a reasonable price.

Having said that, in the projects, there are millions of tonnes now changing hands and the prices can be very good. We're certainly seeing things as low as two dollars per tonne and much higher. It really just depends on the risk associated with entering into that kind of project.

● (1155)

Mr. Lee Richardson: Can any of you give me an example, just for clarification, of one of these emission reduction investments in developing countries? I think you referred to them as green investments, as opposed to just buying hot air. Are we aware of any Canadian companies that might be in Ukraine or some other place? This seems to be the new trend that's coming here next week.

Mr. Jack Cogen: Yes, there are two other things—not hot air, but how you do a reduction project, which I can speak to, and I think David can speak better to the green investment concept.

Mr. David Runnalls: We should be careful to differentiate here. The Kyoto world is a strange world. For the purposes of Kyoto, Ukraine is in the same category as Canada. It's not considered a developing country. It has a target, and it has obligations that it has to meet.

The countries in which the clean development mechanism can operate—the mechanism that deals with developing countries—are essentially all of the non-industrialized countries. In other words, it's everybody outside of Europe, North America, Japan, Australia, and New Zealand. It's both the rich developing countries like Brazil and Mexico, and it's also China, Chad, Kenya, and so on. The CDM projects can only operate in those developing countries.

A range of projects have been tried. Jack mentioned the whole question of landfill recapture. My institute has been involved in a project in Chile, for example. That project is designed to improve the efficiency of the transport system in Santiago de Chile so that they basically save energy and reduce emissions. There have been projects that involved the retrofitting of power plants, for example.

One of the problems with the clean development mechanism—and Jack can probably speak to this better than I can—is that it has a very cumbersome approval process. There's an international executive board that has to approve every project. So far, it has proven very difficult to get these projects through that.

The Chair: I'm sorry, Mr. Richardson, but I'm going to have to bring that part to a close. We'll come back to you, of course.

We'll go to Mr. Simard.

[*Translation*]

Mr. Christian Simard (Beauport—Limoilou, BQ): Welcome. To start, I'd like to come to an agreement with the witnesses. I'll ask relatively short questions to which I'd like to receive relatively short answers, in order to make the best use of my time.

I'd like to start with a brief comment. I have to admit that Canada's idleness leaves me with a sense of both sadness and anger, as a Quebecker, and even on behalf of all Canadians and Quebeckers. The failure of the current approach and the lack of progress towards reaching Kyoto goals fills me with embarrassment and anger. This is very serious to me.

Mr. Bennett, you said that it would take an effort similar to that which took place during the Second World War. You said $1.4 billion in subsidies were granted to oil companies or large emitters. I'd like you to be more specific. From your presentation, I got the impression that you were going to tell us that we're investing more to promote greenhouse gases than to reduce them. Is this true?

Have you done a breakdown of the subsidies granted to oil companies compared to those that are meant to reduce greenhouse gas emissions?

● (1200)

[*English*]

Mr. John Bennett: Absolutely, that's correct. We are spending more taxpayers' money supporting the polluters than we are in reducing greenhouse gas emissions in Canada.

[*Translation*]

Mr. Christian Simard: Bill C-48 gave the oil industry tax credits. Do you know if there was an environmental assessment on the impact these subsidies had on reaching Kyoto objectives?

[*English*]

Mr. John Bennett: Last year's bill will increase the subsidies by about $265 million a year to the oil and gas industry; by reducing the tax rate on them, we've now given them an additional $265 million. Of course, these industries are extremely profitable.

[*Translation*]

Mr. Christian Simard: Earlier on, you also mentioned that 14 agreements had been signed with the automotive industry. To my knowledge, there is no agreement with the automotive industry in Canada. There are agreements with only two industrial sectors: pulp and paper, and I believe, steel. I didn't quite understand the part of your presentation which dealt with these 14 automotive industry agreements which improved things. You said that there was a type of intellectual fraud going on, or at the very least some half- truths.

I'd like you to clarify what you meant.

[*English*]

Mr. John Bennett: It was Minister Efford who spoke yesterday.

In 1981 Parliament passed the Motor Vehicle Fuel Consumption Standards Act, which was an empowering law that gave, at the time, the Minister of Transport the authority to make regulations for fuel consumption on motor vehicles, cars, and light trucks. The oil industry approached the government and said that if that law was not proclaimed—meaning it did not come into effect—they would voluntarily make sure that the fleet being sold in Canada met the same fuel economy standards as the fleet sold in the United States. That agreement has been renewed a number of times since 1981; however, the only reason it has worked is that it's not a voluntary agreement in the Untied States, it's a regulated law and there are huge fines of about $5,000 U.S. per car if a car company exceeds the target. As a result, those companies have complied in Canada and in the United States.

[*Translation*]

Mr. Christian Simard: So, seeing as these regulations are in effect in the United States and that we import many vehicles from the United States, it had an effect on us, but it isn't due to voluntary measures. Have I understood you correctly?

[*English*]

Mr. John Bennett: Absolutely, and as we go forward to ask for a greater achievement in Canada than the one the United States is asking for, we need that regulation to ensure that it happens.

[*Translation*]

Mr. Christian Simard: My next question is for Mr. Cogen. I know you have an interest in this and that for you, the fact that Canada hasn't met its reductions goals is an incredible business opportunity. At least you're honest enough to say so. There is potential there, an incredible market. On page 4 of your document, you state: “A demand of more than 3 billion tonnes in 2008-2012”. That's your market.

I don't have figures for Japan, but we know that the population of our country is much smaller than that of Japan. Yet, there is a demand of one billion tonnes on the world markets. In Europe, where there are cold climates in several countries, long distances to be covered, like in western Canada—and I say this for my Conservative colleague—the demand will only be 800 million tonnes. In Canada, with a population of 30 million people, we'll have to buy 1.2 billion tonnes on the market.

If I understand you correctly, you don't have much of a domestic action plan for Canada. If you do the calculations, it means 240 tonnes per year, over five years, to implement the plan. Yet, our plan provides for a 260-tonne reduction per year. You can say 300 tonnes, if you really want to comply with the objective of 6 per cent below the 1990 levels. So, you're expecting failure on the domestic market, because your estimates stand at 1.2 billion tonnes, in other words all of Japan, or, 400 million tonnes more than all European countries combined. This is the type of thing that fills me with shame.

Am I mistaken?

● (1205)

[*English*]

Mr. Doug Russell (Managing Director, Natsource): Perhaps I can shed some light on those.

That's in the absence of any kind of Canadian plan. In other words, we've asked what the gap is that Canada needs to meet in order to meet its goals. Assuming that we haven't seen any major plan in place to do things domestically, then that would be what you're looking at. That's the gap you have to meet.

We're not saying you have to meet it all in the international market by any stretch of the imagination. What we're saying is that a balanced approach to any kind of Canadian plan is going to involve domestic action and some international action. The amount of international action will depend on how much you can do domestically, and that depends to a large extent on when you get going at starting to do it.

Mr. Jack Cogen: I would add that there are particular factors that distort this. Japan is a much smaller country, it's more energy efficient—it has to be—and it has had a much more aggressive nuclear program. In Europe, some of the effect in how Europe is able to meet its plan is in fact the ease of doing things with the ascension countries and with the unification in Germany, with bringing East Germany.... It's almost the same effect as bringing Russia in. You're going from a lower industrial base, versus where the numbers were set. There are some distortions there. And the United Kingdom did a major shift in its fuel mix from coal to natural gas, dramatically reducing the greenhouse gas effects for that nation.

So there were some really big items there that affected Japan and Europe in a very positive fashion in terms of their demand versus that of Canada.

[*Translation*]

Mr. Christian Simard: Thank you.

Mr. Runnalls, if I've understood your brief correctly, you estimate that Kyoto mechanisms to make up for the fact that we will not be reaching our 240-tonne objective—some people believe we are looking at more than 300 tonnes per year...

My question is either for Mr. Cogen or anyone else who can answer. If we are the last ones to enter into the market for tradable credits, will we not be compelled to buy many tonnes at the lowest price, in other words hot air from Russia, because it takes quite a bit of time to develop projects in the third world? Europe is well ahead of the game, and this purchase is expensive. Would the fact that we are lagging behind and so far behind in implementing—I'm referring to the diagram which illustrates that we account for only 3 per cent of the current market—not mean that we will be forced to buy hot air instead of helping to bring about real emission reductions in third world countries, because we got into the market too late and because the cost for this type of project will be too high and difficult to undertake?

[*English*]

Mr. David Runnalls: That's the interesting question of the day. As Jack pointed out, this is a market and we can't predict how the market will move. I would suggest that we don't do that.

The cheapest possible alternative in terms of taxpayers' dollars would be to buy hot air from the former Soviet Union and Eastern Europe. I think that's politically unacceptable, and I think it doesn't do anything to reduce CO_2 emissions. What we're suggesting is that there will be the possibility of bargains that one can strike with the former Soviet Union in exchange for real reductions in their CO_2 emissions.

Doing that will certainly be more expensive than buying hot air. If we were to go one step further and tie it to the purchase of Canadian technology or Canadian goods and services, as I think Jack mentioned earlier, that will make it even more expensive. In other words, there will be a gap between the cheapest alternative, which is to buy hot air, and these green investment schemes. How large that gap will be is a function of how quickly we get on and start doing this sort of thing, but it's not predictable at this stage until one actually enters the market and begins to purchase.

The Chair: I'm going to interrupt now, Mr. Simard. You're out of time. Thank you.

We'll go to Mr. McGuinty.

Mr. David McGuinty (Ottawa South, Lib.): Thank you, Mr. Chairman, and good morning to all the panellists. Thank you for joining us.

I'd like to pick up on some comments that were made by each of you and begin, if I could, Mr. Chairman, by posing three sets of questions to three different panellists. The first questions are for Mr. Runnalls.

I'd like to get some help, Mr. Runnalls, and I'm sure the members of the committee would agree. Can you give us some sense of things from an international overseas development assistance perspective? You mentioned the continuing role Canada might play on climate change. In my experience of over 10 years in developing countries on the ground, working for example on immunization of children or on providing clean water, climate change over that decade never reared its head once. Can you comment and help us to understand what is really important on the international development scene right now? Is it climate change or is it, for example, clean water?

Maybe I could leave that question with you for a moment.

At the same time, could you enlighten us and give us some sense of the enforceability of this agreement, please? Which nation state will be able to come to the table with clean hands and enforce it? As we look out beyond 2012, are we looking to revisit the enforceability of the protocol? What implications will it have for Canada?

For Mr. Bennett, we're trying to get some objective facts and assessment of the Pembina report on the so-called subsidies to the oil and gas sector. It's terribly frustrating, as a member of Parliament, because there are a number of proponents who have different views about whether or not we have subsidies. If a fully objective team of economists from the Department of Finance were sitting beside you today, would they agree with your assessment of oil and gas subsidies? If they wouldn't, why not?

At the same time, you talk about the need for regulation, what some might call the hammer of regulation. Canadians who are watching are confused, I think, about whether voluntary measures are simply an opportunity for big industry to get off the hook. I wouldn't want them to hear the proceedings of this meeting and come to that kind of conclusion, when we know that the expanded use of economic instruments in the United States is precisely why we're developing an international trading system, because it's more efficient. We know the Europeans are increasingly solving their environmental problems on an industry-sector-by-industry-sector basis using eco-covenants, which are in fact a form of voluntary agreements with all kinds of transparency built in, consultation built in, and so on and so forth, without the hammer of regulation.

Finally, for Mr. Russell and Mr. Cogen, could you help us understand what will happen as Canada moves to implement Kyoto, and what will the impact be? No country is an island, certainly not one that trades 85% with one other nation state called the United States of America. I've raised this before at the committee. Very few discussions ever focus on our NAFTA connections. Should we be looking at a NAFTA-wide response to climate change, while being good Kyoto citizens, corporate Canadian international citizens under Kyoto? To what extent should we be focusing on the NAFTA context because of the physical connections, the economic connections, and others that inform how we do what we do here?

● (1210)

The Chair: Thank you, Mr. McGuinty.

Perhaps we could start with Mr. Runnalls with the first question on how you see international priorities—water, climate change, and so on.

Mr. David Runnalls: This is the year for the examination. The international community agreed in the year 2000 to the millennium development goals, which are very sensible—reduction of poverty, provision of clean water, and so on and so forth. That's really what's driving the development agenda at the moment.

I would suggest to you that climate change is not irrelevant to that, however, because one of the things we're now discovering is that the principal victims of climate change will be those people in the poorest countries who are the most vulnerable to change. Those countries that have vulnerable agricultural systems, those coastal countries we've just seen with the tsunami, are going to be the most vulnerable to climate change. If we phrase this discussion with developing countries in terms of what are you going to do about climate change, we will get nowhere. If we can, however, formulate development strategies that provide clean water, that help to deal with AIDS eradication, but also make developing countries more robust in their resistance to climate change and help them to modernize their economies on low emissions trajectories, then we'll have a useful conversation.

There is one other quick thing, Mr. Chairman. In climate change, however, regarding the developing world as a consistent entity is a big mistake. In the entire world 15 countries produce 80% of all the emissions. It's going to be a real challenge to Canadian policy to pursue the millennium development goals in the poorest countries in the world, in Africa, for example, while at the same time developing policies to deal with China, India, Brazil, Mexico, Nigeria, Egypt, which are fast growing, rapidly leaving the category of developing countries, and which are the principal contributors among developing countries to climate change. I would suggest that if this international policy review ever gets written, one of the things it's going to have to do is to address how Canada deals with these emerging economic superpowers, because it's not going to fit in our current aid strategy.

On the second question, very quickly, the compliance issue is going to come up again and again. My guess is—I probably shouldn't say this out loud—when we come round to truing up at the end of the Kyoto period, there will be a number of countries that are somewhat short of their goals. I think we will be judged and other countries will be judged by the international community on how hard we tried to get there and how close we got. I think if we're still standing around in the year 2012 and we're 150 million to 200 million tonnes short of our goal, there will be serious penalties, if only to our international reputation. My guess is if we're 10 million to 20 million short, people will say, well, they made a serious effort, they tried hard.

The performance of various countries is very mixed at the moment. We're still two years away from the beginning of the commitment period. I think there will be pushes, obviously, Mr. McGuinty, for real compliance penalties if you get one country that undershoots its target and another one that is miles away from its target. The peer pressure in international politics will simply be that we have to punish the miscreants because these other guys tried very hard.

● (1215)

The Chair: Mr. Bennett, further on other instruments in addition to subsidies and covenants and so on.

Mr. John Bennett: On the Pembina report, there might be some disagreement as to how we've interpreted different things. It is true that through the 1990s a number of direct subsidies were eliminated, but they were generally replaced by tax breaks of another kind. If you are a dentist and you invest in an oil well, you can have a flow-through investment and write off your dental income against that oil well. If you invest in a windmill you can't do that. We consider that a subsidy because it's special treatment of the industry.

There will be some discussion about how to define a subsidy. In fact the paper, which I'll make available to you, goes into that and tries to discover just what a subsidy is. The traditional form of the government writing a cheque at the end of the year isn't there anymore, but there's still a lot of positive treatment for the oil and gas industry, to give it a better break than, say, a windmill company. So we're arguing about the difference in how oil and gas is treated compared to other businesses.

On your second point about regulation, I think most of this discussion stems from the success of acid rain action in the United States. An emissions trading scheme was first created there, and it was very successful in reducing acid rain in North America. It was the basis for the American advocacy of emissions trading within the Kyoto Protocol. However, it wouldn't have worked if there hadn't been a regulation requiring the coal-fired industry in the United States to find a solution.

In the kind of regulation we advocate, the government sets the goal. It's not the old-fashioned kind of regulation where the government sets the goal and tells the company what the technology is, and sends an inspector who says, you don't have this widget so you're in violation. That's not what we're talking about. What we're saying is, here's the goal, you find the best way to meet this target. We're interested in the target, not the method. That's what we should do.

There have been at least two studies so far on the European agreement with the car industry, in which they've made good progress on the first target. Both of those studies conclude that the agreement will not lead to meeting the target. It did not occur until the European Union said to the car industry, here's the regulations that we will pass if you do not agree. Three weeks ago, the European Parliament passed a resolution calling upon the EU Commission to actually put those regulations in place.

There's also traditional thought that regulation is more expensive for government; however, imagine how much money has been spent negotiating for four years with the car companies. A huge amount of investment in research has to be developed to continually talk to car companies. In fact, some of the studies in Europe are suggesting that's just as expensive as regulation.

So we're telling the government to put the regulation in place. If industry wants an emissions trading scheme to meet the target, let industry do that, but the regulation is required. We're regulated everywhere else, so why wouldn't industry be regulated as well?

● (1220)

The Chair: Mr. Russell is next, with respect to NAFTA.

Mr. Doug Russell: With respect to NAFTA, I think the short answer is that Canada is in a unique and somewhat inevitable position of having to do both. We are party to Kyoto, and we need to respect and move toward our Kyoto target. We are also a large trading partner with the United States. There are many opportunities where we can cooperate with the United States and Mexico without necessarily pursuing the "Kyoto" side.

The United States is currently very active in the northeastern United States, for example, in establishing a cap-and-trade system that is going to be dealing with states' initiatives there. There is movement afoot in the United States to do work on multi-pollutants. With all of these initiatives, Canada needs to be watching very carefully to see how we can harmonize and ensure that what we do is mutually supportive.

On establishing a NAFTA-wide approach, it's going to have to start in pockets and then build as time goes on. Certainly it would appear that there is not the appetite to look at climate change in the United states the way there is in other parts of the world. However, there are opportunities between Canada and Mexico under the Kyoto Protocol that can be explored in the area of establishing clean development mechanisms.

The answer is that there's probably a way to go before you can formalize an agreement on this front, but there are pockets of opportunities where there are mutually beneficial approaches that will help us meet Kyoto, and help us with our trading and environmental relationships with our NAFTA partners.

The Chair: Thank you very much, Mr. McGuinty. We're out of time on that.

We have five-minute interchanges going from side to side. Those of you who have been here before are familiar with that.

We'll go to Mr. Jean.

Mr. Brian Jean (Fort McMurray—Athabasca, CPC): Thank you, Mr. Chairman.

I too am extremely angry with our government's reaction over the last 15 years in which they've had the opportunity to put this in place, Mr. Bennett, and it does make me quite upset and angry because I think we have to have a more positive reaction to it.

I'm also angry at what I continuously hear of as the oil and gas problem. Quite frankly, I think the oil and gas industry is being treated as a scapegoat in this particular scenario, because in my belief —I am from northern Alberta and I've seen the tremendous growth in the oil sands—if we didn't have the natural resources we do have, including oil and gas, in our economy today, we would have had a stagnant economy over the last 10 years and be close to a banana republic in another 10 years.

I also think part of the difficulty, as Mr. Cogen has indicated, is the uncertainty of Kyoto and the government's stance or lack thereof to do something about it over the last 15 years, so that we find ourselves today implementing this particular treaty without anything having been done, in essence.

Mr. Bennett, you indicated that we are in a global economy—and this is really not a question. I would agree with you, and I think Canada is an economy by itself and we are in a country-wide state.

Wouldn't you agree with the proposition that it's a balancing act between the economy and the environment, and what we need to do is to find those areas of the economy that have less impact on the environment for the dollars spent, and to move our economy toward a situation where we use those things that give us, for the sake of better terminology, a better return on investment per dollar compared to environmental impact? Wouldn't you agree with that statement?

● (1225)

Mr. John Bennett: Basically, but I also would like to point out that the Kyoto plan, as it exists, doesn't require the oil industry to stop growing. It in fact allows its emissions to grow by some 30%. This is not curtailing any of the development that's planned in the north at this time. Yet the oil industry has fought tooth and nail against having any kinds of controls on greenhouse gas emissions, while they've been given the easiest ride of any sector. Because of the arrangements made with the oil companies, the rest of the industrial sector in Canada has a tougher job to meet the target.

Mr. Brian Jean: But to be fair, Mr. Bennett, you yourself fight tooth and nail on the other side to stop all.... It's understandable that everybody would argue their own position. But would you not agree with the proposition, again, that we have to invest in those industries that provide more bang for the dollar and less environmental impact?

Mr. John Bennett: Absolutely, and that's why I suggested that we should stop giving $1.4 billion to the oil industry, which is doing fine on its own. It doesn't need the taxpayers' money.

Mr. Brian Jean: Mr. Bennett, I'm not trying to create an argument, but you're talking about an industry that adds $25 billion per year directly to the taxpayers' pocket, to both the Alberta government, for instance, and the federal government in equal instalments. We're talking about an industry that takes $10 billion just to start a plant site, and that won't start it on its own without government intervention, such as GCOS in 1966. It would not have been started, and we would not have the oil sands there today, except for government intervention. But I'll leave that point.

Mr. John Bennett: But that's precisely the point. Now that we've decided we need to reduce greenhouse gas emissions, we say to the new technologies, go ahead, come in and do this. But we don't provide them the kinds of support that we provided to other forms of energy, such as fossil fuels or nuclear power or hydro power. They were all government-sponsored or they wouldn't be there.

I'd like to remind you that for about 25 years the price of oil coming out of Alberta was more expensive than it was from the rest of the world, but the rest of Canada bought the oil from Alberta in order to support that industry, and I have no problem with that. But the problem I have now is that we see a huge global problem that's going to have direct impact on Canadians—it's having direct impacts on Canadians—yet we continue to force along one path and ignore the other paths. That's what's wrong with the system.

Yes, we could get $25 billion worth of action out of alternative forms of energy if we put $1.4 billion into it every year.

The Chair: Mr. Runnalls would like to respond also, Mr. Jean.

Mr. David Runnalls: One of the reasons I welcome the arrival of a plan, if it finally gets here, is this. I've been in this business for 30 years. I've watched major shifts in environmental policy in western Europe, in the United States, and in Canada. Every one of them is accompanied by lots of figures about how this will bankrupt one sector or another. My guess is, once we get going, the engineers in the oil business will find lots of ways to make cost-effective changes to their processes.

There was a piece in the *Globe and Mail* two days ago—I think you probably saw it—from the Petroleum Technology Alliance of Canada, which is an organization that's funded, as I understand, largely by the oil companies, in which the director said that he reckoned the Canadian oil industry could get 29 megatons of savings in less than four years and increase its profitability, and that some of these investments actually had a payback period of as little as four months.

There will be two kinds of companies. There will be some that see this as a disaster and there will be others, such as Shell and BP, that see it as a challenge. We are going into a carbon-constrained future. We're going to have to exist in this world. If we adjust faster, are quicker on our feet, and are better at the technology, we'll be miles ahead of Exxon, Mobil, or the others that are dragging their feet.

I'm sure we're going to find in the Canadian oil industry that there will be three or four lead companies that really take advantage of this—cut their emissions dramatically, get new technology onboard; there will be some that are stuck back in the mud; and there will be others in the middle.

I'm very dubious of all these cost figures we're getting at the moment, because I've seen this before. I saw it with the U.S. sulphur dioxide emissions trading system. I saw it with the Clean Air Act. I saw it when I was in London with the various British laws. It always turns out that people grossly overestimate the compliance cost, because who wants to go back to their shareholders and say, geez, I underestimated this by 50%? If you overestimated it by 100%, then you look like a genius because you beat your estimates.

● (1230)

Mr. Brian Jean: But again, Mr. Runnalls, with respect, we're in a situation where we have no plan. We don't know what we're going to spend. That's the difficulty that all the companies have.

Mr. David Runnalls: I agree. There's nothing that business hates more than uncertainty, and we've had eight years of uncertainty.

Mr. Brian Jean: I'd say 15.

Mr. David Runnalls: Well, you're right, but uncertainly is the absolute enemy of trying to deal with these things.

Mr. Brian Jean: With respect, gentlemen, I'm restricted to my questions, and I'd like the answers to specific ones.

The Chair: I'm afraid I have to interject, because you're out of time, but we will have enough time to come back to those supplementary questions.

Mr. McGuinty.

Then we'll come back to Mr. Simard.

Mr. David McGuinty: Thanks, Mr. Chairman.

I have a couple of very quick questions.

Mr. Runnalls, you've been involved, if I recollect, for a long time with the Canada China Business Council in China, as a Canadian government delegate. Can you help the committee understand where the Chinese are going with respect to nuclear power, particularly as they've had to deal with raging subterranean coal mine fires that have been contributing enormous tonnage of greenhouse gases into the atmosphere in China?

To perhaps all the panellists, Prime Minister Blair in the U.K., whom you refer to again, Mr. Runnalls, in your quick paper here, some years ago decided to take the issue of climate change and recast it as an energy issue. What I understand, from what I have read in British papers and from discussions with the high commission here in Ottawa, is that he did this principally because U.K. citizens did not understand what climate change was.

Since 86% of all greenhouse gases in this country come from exploiting, transforming, and consuming fossil fuels, and since energy is an issue Canadians might understand more readily than the complexity of a climate change phenomenon, which is often confused with ozone depletion and then is confused with wildfires and all kinds of other physical and natural phenomena, Canadians are having a hard time watching these proceedings and understanding what we're talking about. If we were, panellists, to recast this as an energy issue about how we drive our cars and heat our homes and do other things using energy, might we not have more success than casting this in terms of methane and CO_2 equivalents and carbon dioxide and climate change?

The Chair: Mr. Runnalls.

Mr. David Runnalls: I'll deal with the Chinese question first.

I think the answer is that the Chinese will pursue every energy alternative available to them. They have just recently introduced a renewable portfolio standard for the electricity industry. They are going to go into nuclear in a major way, and they are building literally hundreds of new coal-fired power plants.

I remind the committee that this is a potential disaster globally, but I also remind you that the average Chinese uses less than 10% as much energy as the average Canadian. So there's a real equity argument here. How we deal with China and India, I think, is going to be the determinant of how we deal with climate change as a threat.

In response to Mr. McGuinty's second point, it takes me back to the origin of my institute, which is the report of the World Commission on Environment and Development, the Brundtland commission. One lesson of the Brundtland commission is that you don't treat symptoms, you treat causes. They said at the very beginning, even then, that climate change is energy policy. And I agree with you, that's what it is. Energy is at the heart of the modern economy. Energy produces most of the emissions, and how we use and transform energy is the solution to the climate change issue.

The Chair: Does anybody else wish to respond?

Mr. Cogen.

Mr. Jack Cogen: Very quickly, I think the Republicans have been very involved in the SO_2 and NOX programs in the U.S., and the word...it was even used today on climate change, where we were talking about pollution. The shift has to be in the understanding that we're not talking about pollution. Carbon dioxide is not an unnecessary byproduct of a process for fossil fuels; the process itself makes carbon dioxide. There is no way around it. It's not as if you can filter it out or anything else. It is the energy source that we're using. So you can talk about methane, you can talk about N_2O and all these other things, but the basic problem is that we're a fossil economy. That is the issue.

● (1235)

The Chair: Mr. McGuinty, we have one minute there.

Mr. David McGuinty: If we were to recast it, then, as an energy issue and not a climate change issue, if we were to stop showing smokestacks in newscasts, which confuses Canadians, who are equating climate change with a pollution and air quality problem, would we not have more success, for example, in positioning the huge economic opportunities? As Mr. Runnalls just reminded us, going back 30 years or more, we're talking about simply re-examining energy policy in a national context, finding new forms of energy.

I remember giving a speech in Alberta one time to the Canadian Club in which I asked why it was that if Alberta is the energy centre of the country—and of course everyone in the audience agreed with that assessment—Ballard Power, the leading fuel cell research company in the country, is still located in Vancouver. Why isn't Alberta, as the energy capital of the country, leading the next charge, facilitating the transition from the dependency on fossil fuel energy sources to other energy sources?

Are there any comments?

Mr. John Bennett: We've been wrestling with these questions for years, trying to determine what's the best way to talk about this issue. The problem with climate change is that it's actually more than an energy issue; it's a lifestyle question, it's a quality of life question, it's a pollution question, and it has 5,000 solutions, not one. There's not one way to solve this; we have to do thousands of different things to actually reduce emissions.

I think equating climate change with pollution is the way to pursue it, because it is about pollution. It's about putting something in the atmosphere that doesn't belong there. The public may have difficulty understanding all the nuances—and frankly, I had trouble following my associates earlier when they started talking about all the nuances of emissions trading—but the public know that it's about burning fossil fuels, they know that it is about a form of pollution, and they know that the solutions are to deal with those smokestacks and to deal with their tailpipes and their own chimneys.

The problem we've had is that we have not given the public enough tools.

Mr. David McGuinty: Just as a quick response, having just knocked on 27,000 doors to get elected seven and a half months ago, let me assure Mr. Bennett that the public do not understand that this is a pollution issue. They do not equate climate change with pollution. In fact, most people think that because there's a hole in the ozone layer, the heat is coming through the atmosphere and heating up the planet.

Maybe it was the experience of knocking on those doors, Mr. Chairman, that made the difference.

The Chair: That's a line of questioning that may deal with that too.

Mr. Simard, please.

[*Translation*]

Mr. Christian Simard: Mr. Chairman, I want to thank you for enforcing each member's right to speak. It's a matter of fairness for all parties. Mr. McGuinty will have an opportunity to make his comments at some other time.

I notice that the government is sorely lacking in political will. I get the feeling that those who helped it come to power are being rewarded—and I am thinking specifically of the Prime Minister here—and that the interests of certain lobby groups take precedence over saving the planet and taking genuine measures to protect the environment.

Three billion dollars have been spent and the result is a 20 per cent increase in greenhouse gas emissions. In 2005, this is shameful. I was deeply embarrassed when an announcement was made regarding an international conference in Montreal despite such a paltry state of affairs. This government will suffer a serious boomerang effect; that's just too bad. That this is happening in Quebec is deplorable, when Quebec has had such good success in implementing the Kyoto Protocol.

What shocks me particularly in the current approach is that there is no transparency, no public debate, no debate on legislation, no use of tax instruments. All of this has been swept aside and all Canadians and all Quebeckers will be left to foot the bill attributable to one industry's non- compliance. I am thinking specifically of final emitters, the oil and gas sector, which is responsible for more than 50 per cent of emissions.

I get the sense that technologically, we are going to start lagging behind, even in this sector. Canada's policy with respect to the Kyoto Protocol is completely distorted.

What do you think of the Bloc Québécois' proposal to ask for framework legislation on Kyoto, under which there would be tax measures and regulations? We would pass legislation which would be binding on final emitters and call individuals to account, which would be normal given the fact that there are many solutions. What do you think of the Bloc Québécois' proposal made public yesterday, regarding adopting framework legislation and forcing non- compliant industries to sign agreements?

● (1240)

[*English*]

The Chair: Mr. Bennett, do you wish to respond to that?

Mr. John Bennett: We certainly welcome legislation. In 15 years of discussing this issue, several prime ministers have described it as an important issue that Canadians need to act upon, but there's been not one federal regulation passed, not one law passed. We would love to see regulations in place.

I think legislation on climate change would be somewhat of a help with Mr. McGuinty's problem in terms of making the public understand how important it is. Without regulation, without rules for those who pollute, the public is not going to be buying smaller cars or fixing their houses, because they don't see what their contribution would be as an individual.

So we do need to have strong regulations in place, making our large and profitable industries do what they can to reduce emissions. We haven't even asked them to do what is possible; we've asked them to do what they've said they might do. We haven't really explored the possibilities. We can do much more in terms of reducing emissions from industrial sources if we actually put some regulation in place and put a real emissions trading system in.

The Canadian plan for emissions trading actually corrupts the whole concept of trying to put a market value on carbon by using an intensity-based system rather than using a cap. What Canada should do is put a cap on those emissions, sell permits back to industry, and let industry trade them around to find the best price. By doing it the way we're doing it, giving them a right to pollute, allowing them to increase their emissions, it doesn't actually address the problem. What we need to do is have regulations that actually lead us somewhere rather than just keep us talking.

The Chair: Mr. Simard, you have a few minutes left, if you'd like to use them.

[*Translation*]

Mr. Christian Simard: Thank you, Mr. Chairman.

We currently have a sectoral approach rather than a territorial one, which means that we proceed sector by sector, and which does not always do justice to regions that have lower emissions.

For instance, greenhouse gas emissions in Quebec increased by 5 per cent. Over the same period, in Alberta, emissions increased by 30 per cent. Emissions per capita were 12.6 tonnes in Quebec, compared to 70.9 tonnes in Alberta. Under the One-Tonne Challenge, people are being asked to save electricity. Yet, electricity produced in Quebec is renewable. We get the impression that the same rule is being applied to all, when the Quebec manufacturing industry managed to reduce its greenhouse gas emissions, unlike the industrial sector. We feel that communities which have taken charge of their situation are not being respected under the current agreement.

What do you think of this approach, more territorial than sectoral, which hasn't led to great results so far?

[*English*]

Mr. John Bennett: One of the major problems Canada faces in trying to reduce greenhouse gas emissions is that it's a federation with jurisdictional questions that overlap, making it more difficult for us to come to grips with these questions. But certainly the economic benefits of the expansion of emissions in Alberta have actually benefited all Canadians, which we have to recognize when we try to establish a plan. So I have a great deal of sympathy for federal regulators trying to come to a point.

The secondary problem we have is that almost all public utilities in terms of electricity generation in Canada are publicly owned by the provinces. In fact, the federal government is actually trying to regulate the provinces, and this creates huge difficulties. That's without the other kinds of political questions that are ongoing in Canada, in which we have jurisdictions defending their rights and privileges, whether or not their motivations are good. So I think we have to keep on a sector-based approach and look at savings everywhere.

As I said earlier, the problem has 5,000 solutions. It's true that insulating your home and most of the homes in Quebec would not result in reducing greenhouse gas emissions, but it would result in a surplus of hydroelectric power that could be purchased by Ontarians, who would then turn off their oil or gas furnaces—and that would reduce emissions. That's an opportunity for Quebec. Yet the power in Quebec can't be transmitted into Ontario because it's out of phase. So we need to have the federal government trying to help solve that kind of problem.

But we definitely have to approach this based on sectors and what's possible, and make sure we don't do things that actually increase emissions from somewhere else in Canada, or outside of Canada, as a result of our actions.

● (1245)

The Chair: Thank you, Mr. Bennett and Mr. Simard.

Mr. McGuinty, and then we'll come to Mr. Mills.

Mr. David McGuinty: Thanks again, Mr. Chairman.

I'd like to ask Mr. Russell in particular about this question of what's called credit for early action, which has been around for a number of years, where companies are fearful of investing additional resources to reduce their greenhouse gases because they're looking for some comfort or indication or sign from the government that if they do so, they will be credited for that investment when we eventually come up with a system for trading, for example, and for allocating their right to emit greenhouse gases.

Can you give us some sense as to what you think the Government of Canada's position should be on this issue?

Mr. Doug Russell: Thank you, Mr. McGuinty.

The credit for early action issue has always been a tough one for the government to deal with. It all comes down to the baselines, the years in which you established your commitment against. In any given year, one company may have done more than another company; they're on different phases of capital stock turnover, and so on and so forth.

There are those who have actually taken action who could be put at a disadvantage by virtue of these arbitrary choices of year-end dates and starting dates; but they are fairly few and far between, to a large extent. If you look at the actual number of companies who are in that situation in Canada compared with 1990, there are a few of them, but it's not everybody. So you need to be able to identify them and adjust that within the initial allocation for whatever kind of trading, large final emitter, or regulatory system may eventually be established.

The toughest part of any kind of regulation dealing with establishing an emission trading system is always that initial allocation. In the long run, the emissions trading itself, the fact that you can put a price on carbon and allow companies to look at what their opportunities are, will smooth out those costs; it has always proven to be the lowest-cost approach. But getting over that initial allocation hump is always the difficulty. There needs to be some provision for those companies who have taken early action; but I would also posit that if you really look closely at it, the number of those industries to which that would apply is relatively small and should be able to be handled in the system.

Mr. David McGuinty: Thank you very much for that, Mr. Russell.

Mr. Bennett, just to pick up on some of your comments. I think you made a couple of references, hard on the heels of my colleague from the Bloc Québécois, Monsieur Simard, about the notion that there just haven't been sufficient consultations, that government is devising policy behind closed doors. That's a little rich, as this proceeding is being broadcast across Canada and will be rebroadcast by CPAC, where Canadians can follow the debates openly. It's also a bit rich given that the Climate Change Secretariat has organized over 16 issues tables—albeit with mixed results. The National Round Table on the Environment and the Economy has designed the fledgling domestic emissions trading system, with your organization playing a very central role, and so on and so forth. In fact, I would argue that there have been hundreds of opportunities for ENGOs, for consumer groups, for industrial concerns and, for that matter, for government departments and officials to participate.

Maybe I can put this in the form of a question. Isn't there a distinction here to be drawn so that Canadians understand that it's one thing to be called to the table to discuss, and it's another thing to be at the table and have one's organization carry the day? Are we really talking about two different things here?

Mr. John Bennett: No, we're not, actually. I would agree that until 2002 there was a great deal of discussion, but once the government actually moved to act, the discussion stopped. Since the plan was released in 2002, there has been no discussion about these programs.

The national process on climate change gave a lot of conceptual ideas to the government. Some of those were turned into programs, others weren't. There's never been an explanation as to why this idea was accepted and that one wasn't. There's never been any kind of discussion with officials or with the political side as to how this particular program will function. Where we could actually give good advice on the program side, that's been ignored.

I personally sat with two assistant deputies and a director-general from Natural Resources Canada and said, “Why don't we talk about how we can set up a consultation system so we can help you develop the delivery of these programs?” They sat there with their arms crossed and said, “Well, if you want, you could call the different managers of the different programs and talk to them”, which I did. I went around, and I conducted over 60 interviews. They were not interested in any input; they were interested in telling us what they were going to do. And they were doing things that had been done 20 and 30 years ago that didn't work.

So there's been no consultation on the delivery of the programs whatsoever. And that's the kind of consultation I'm talking about.

● (1250)

The Chair: Mr. Bennett, thank you.

Thank you, Mr. McGuinty.

Mr. Mills, go ahead please.

Mr. Bob Mills (Red Deer, CPC): Thank you, and I thank our guests.

I have a series of questions, and if permitted, I'd like to give you those questions. Hopefully, we will have time to get very, very short and precise answers.

First of all, I wonder how you monitor clean energy programs, the clean air programs that you purchase internationally. We have difficulty monitoring them domestically. I just wonder how you would monitor them in the Ukraine or in Russia, or wherever.

Second, I was at COP 10, and I listened to country after country. Two things were mentioned: one, they trashed the United States for not being part of it; and two, they trashed Canada for not having any plan or any hope of achieving their targets. I then heard the G-8 countries say "We aren't even interested in talking about beyond 2012 until all of you guys in Annex 1 in fact hit your targets". Of course, we hear that not many will hit their targets.

Third, I wonder what you think the price of carbon would be if in fact the U.S. and China were part of this trading mechanism. What would that do to the price?

Fourth, John, you and I have faced off a number of times, and every time I hear, I think, profit is bad; it doesn't matter about our standard of living; we want a level playing field for all energy. And I believe that we can probably come to pretty close agreement on that. I hear that the NEP probably was a good thing, and most important, I hear that because the oil and gas are so bad, maybe we should have a nuclear power plant in every city. That, I think, is what you're forcing on Canadians, and you're forcing something that could become a reality, because nuclear is such clean energy, so why not go with the cleanest of the clean, and that might be well what you accomplish.

I also wonder, if CO_2 is a toxic substance, if you in fact would agree with putting it under CEPA as a toxic substance.

Finally, and the question I would like answered first, what would be the cost of 100 megatons of carbon credits purchased internationally? What would be the dollar figure, approximately? In Canadian or U.S. dollars, what might that cost? If we have 300 megatons and we need 100 megatons purchased internationally, what might be the cost? We've seen figures.

So perhaps we could answer that question first, and then try the others as you get to them.

The Chair: I have seven questions in there. Perhaps we could start with Mr. Cogen on the last one of Mr. Mills' questions, the cost 100 megatons of carbon credits.

Mr. Doug Russell: Let me answer the last question first and then perhaps address two of your other questions, Mr. Mills.

First of all, if one of us at the table could predict what the price of any commodity is in any market, we would not be sitting here, we would be doing something else and be very rich. Therefore, predicting prices is really very difficult.

You're talking about 100 million tonnes per year, and we showed a graph earlier that showed a range of different prices in the marketplace today. In absolute terms, what it would actually cost is very difficult to know, because you'd have to start buying now and you would have to get in when the prices are cheaper. It would be difficult to know exactly what it would be, but let's take an average price.

The government has talked about $15 a tonne, which is what it's on the hook for. You can just do the math on that and figure out what 100 million tonnes would be at $15 a tonne. I would posit, though, that the Canadian government and Canadian industry can do much better than that. Currently in the marketplace, if you make the commitment or come up with a purchasing strategy that actually takes advantage of the fact that prices are lower now and will likely be rising in the future, it would be important, for any kind of purchasing strategy that Canada might put forward in this area, to be tied in with a number of other policy initiatives that you are looking at, so that you can get more bang for your buck on that front.

For example, if you're helping Canadian technology to be exported elsewhere, by the design of your purchasing program you may find that the net cost of buying purchases may be zero. You just don't know. You'd have to look at all of that. It is a different kind of thing from just going out and saying you want a tonne and it's ten dollars, and what have you. You have to look at some of the other elements that you could bring into play, but it makes you have to think about that purchasing strategy as part of the overall plan.

With regard to your first question, how do you monitor these projects that are being put in place overseas in other areas? People may disagree about targets and all of that, but the one thing about Kyoto is that it does put in place a very rigorous international process—some would say too rigorous—by which every project is monitored, verified, and independently looked upon, and therefore you know exactly what it is that you are purchasing and it is a valid reduction.

Finally, you asked a question about what would happen if the United States and China were both in this treaty. First of all, I would say China already is a party to the Kyoto Protocol. As a result, Canada and other countries and other industries can indeed invest in projects in China at a relatively low price and repatriate those credits back to Canada.

If the United States had been in it, however, you would have seen much more demand in that market—much more so than on the slide that we put forward—and there would be an imbalance to a large extent. There would be more demand in the market with the United States than there would be supply, and you would see much higher prices. They would be higher than $15 per tonne, for example. How much higher is hard to know. We've seen an economic model that would run them as high as $50 U.S. per tonne if the United States had been part of it, but they're not, and with the United States' demand out of that system, the market prices are projected to be lower than those from economic models.

● (1255)

Mr. Bob Mills: Mr. Chair, I can see where the jobs are in the bureaucracy.

The Chair: I have an interest in hearing the other two witnesses also answering Mr. Mills' question, if they could.

Could you address CO_2 as a toxic substance, in addition to the other ones?

Mr. John Bennett: I can't quote it exactly, but I think under CEPA a toxic substance is something that does damage to individuals or the environment. Under that kind of broad definition, CO_2 is actually damaging individuals and the environment, and it could certainly be governed under CEPA under that situation.

Whether that's the best approach is probably something we need to talk about more, but clearly we need to have a framework for regulating these gases. To date, we haven't had one. Without one, we continue to have uncertainty and we will continue to argue about what the details should be.

So CEPA is there. The Minister of the Environment could declare CO_2 toxic, and that would give the federal government the right to go forward and put regulations in place for cars and put regulations in place for power plants and for the oil and gas industry. That's what we need to go forward on. CEPA is one of our best tools, because it's there already, rather than introducing new legislation.

The Chair: Mr. Runnalls.

Mr. David Runnalls: I don't have a fixed opinion on that, but I have seen two legal opinions that CO_2 could be classified as a toxic substance under CEPA and that the scheme could come legally and constitutionally under Environment Canada as a reason....

Let me answer Mr. Mills' other question, if I might, which is on the reaction of developing countries to talking about climate change until we do something.

That's right, I don't think we're going to get very far bringing in the rest of the world if we don't do anything. There have been too many of these wonderful international agreements in which the rich have promised to do *x* provided that developing countries do *y*. Then we haven't done *x*, but they still get stuck with *y*. I think that a precondition to getting the rest of the world involved in the next phase is going to have to be performance by the rich countries. Otherwise, they will simply regard this as a scam.

You can see this with the Chinese. At one point, the U.S. Senate voted 100 to nothing to not have anything to do with Kyoto unless China was part of the Kyoto Protocol. The Chinese, every Chinese I've ever talked to, will quote that chapter and verse to you.

To follow very quickly on Mr. McGuinty's earlier point, I think the Chinese are well aware of the dangers. I don't think they quite know what to do about it, but I don't think they're marching around in absolute ignorance. I think China knows full well that within a maximum of 10 years it'll have to accept commitments and it will have to do something very serious about its CO_2 emissions. You can see them positioning themselves to do that now, but I don't think they're going to push any blue chips across the table until the Americans do something. I think that's going to be one of the toughest challenges in talking about the next phase of Kyoto.

● (1300)

The Chair: I'm going to have to bring this to a close now. We are out of time.

On behalf of the committee, I would like to express our appreciation to the witnesses. The emissions trading regime is part of the architecture of Kyoto, but it's very widely either misunderstood or not understood. Your testimony, along with the other input, is very helpful, not only to the committee but to those who have been following the testimony and input that you've given.

The back of the process that we're working towards is to look at the Kyoto plan and use the input we've had from witnesses to make recommendations with respect to making the plan more effective. A number of things that happen will be in response to the budget that will come out. I hope I'm not misrepresenting what the committee is all about here, but it is to be better acquainted with this information, these mechanisms, to be able to play a role in terms of its responsibility and its accountability in the process.

We thank you for being here.

At this point, I'll rule that we've come to the point where we adjourn.

Thank you very much.

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