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Chair

Mr. Laurie Hawn

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•(0905)

[English]

The Chair (Mr. Laurie Hawn (Edmonton Centre, CPC)): Ladies and gentlemen, we have a quorum, and I'd like to bring the meeting to order.

I'd like to welcome everyone to meeting number 8 of the Legislative Committee on Bill C-30.

As we said yesterday, we are short one witness due to a family situation, which is regrettable. So we have two witnesses today: Mr. John Drexhage, director of climate change and energy from the International Institute for Sustainable Development; and by video conference from Brussels, Mr. Jos Delbeke, director, climate change and air, from the delegation of the European Commission to Canada.

Welcome to both our witnesses. And Mr. Delbeke from Brussels, thank you very much for joining us.

As is customary, we will give each of the witnesses about ten minutes for an opening statement. We'll probably have a little bit more time for Mr. Drexhage, as he has some helpful information that will assist the committee with regard to the witness we're missing.

Mr. Drexhage, the floor is yours for your initial ten minutes, and then we'll take it from there.

Mr. John Drexhage (Director, Climate Change and Energy, International Institute for Sustainable Development): Thank you very much, Mr. Chair.

Allow me to thank you and the other members of this committee for the opportunity to speak to you today on this critical issue.

I will focus my comments on relevant international aspects, including the lessons Canada might want to consider from the experience of others, particularly the United States and the European Union; how the development of a domestic climate change plan is intimately linked with ongoing discussions on a post-2012 climate change regime; and the implications for Canada of the recently released report of the Intergovernmental Panel on Climate Change.

First of all, allow me to address some of the comments that I would expect from the European Union.

The IISD facilitated two workshops last December to which we invited European and American experts to comment on two compliance elements of the Clean Air Act, namely, emissions trading and a technology investment fund. The messages coming out of these various fora are basically the same. I think the first message that resonates strongly is that in implementing any sort of regulatory

framework, start with a relatively simple system that begins gently. This is easier said than done, since an effective framework in Canada needs to have in place a framework that balances international developments with the unique circumstances of Canada as a major energy exporting developed country.

At the workshop IISD facilitated on December 12 and 14 of the past year, the experts included people from Jos Delbeke's shop in the EC, as well as participants from the U.S. EPA and other organizations within the United States.

We specifically reflected on these two compliance elements that have been the subject of much discussion over the last few months as the Clean Air Act has been developed, and as is found in the statement of intent.

The two main compliance mechanisms being discussed—emissions trading and the technology investment fund—represent distinct approaches to climate policy. Trading relies on emissions limits or caps, while allowing the price to be determined by the market. Depending on its design, the technology investment fund, on the other hand, could fix the price while allowing the quantity of near-term emission reductions achieved to vary.

At the workshop we facilitated—where we had some 60 experts from across Canada, North America, and the European Union, with 30 of them participating in each of the workshops—some participants preferred the certain environmental outcome provided by emissions trading, while others preferred a defined price to allay fears that addressing climate change and reducing your greenhouse gas emissions would be too costly an enterprise. I guess you could say there generally were two perspectives, one of them related to quantity certainty, with some participants placing a high priority on a simple and economically efficient trading system that could link with other systems, such as the one being developed in the EU. People who preferred to focus on quantity certainty were concerned that mechanisms such as the technology investment fund would compromise the effectiveness of the trading system and make linkages with other systems more challenging.

On the other hand, the champions of price certainty were more concerned about the cost of compliance, particularly given the issue of capital stock turnover, and wanted a dedicated fund with a price cap as a more effective means of ensuring that action would begin in one way or another. A technology investment fund would feed into the achievement of long-term commitments by stimulating innovation, but it should be designed to minimize impacts on the effectiveness of the emissions trading system.

Both the technology investment fund and an emissions trading system can be mechanisms for compliance, but they perform largely separate roles. However, despite these potentially conflicting priorities, a system could still be envisioned whereby you could have both a technology investment fund and emissions trading.

Many agreed there was a need for some sort of an emissions trading mechanism where companies that over-complied with their targets could sell credits to other obligated companies. There was also some support for another mechanism whereby companies that could not meet their targets internally could contribute to a technology investment fund in return for nontradeable compliance units.

● (0910)

Companies that met their targets could sell excess credits to companies that could not meet their targets, and companies that could not meet their targets could also have the option to purchase these non-tradeable technology investment fund units.

We also addressed the whole issue, as is within the mandate of the Clean Air Act, of local air pollutants. One of the really startling lessons coming out is that as far as long-term targets for local air pollutants are concerned, you don't have anything beyond 2020 in any constituency around the world—and that's found only within the European Union itself, and has itself only been legislated recently as well—so in terms of this work on long-term emission limits and targets for local air pollutants, you could say we're very much on the leading edge in terms of the precedents in developing this.

I think there was an overall conclusion that in any kind of regulatory system that addresses both local air pollutants and greenhouse gases, you look at it from a perspective of asking where the co-benefits are, but to try to regulate local air pollutants as you would greenhouse gas emissions under one system would be extremely problematic. You would need to have—and in fact it would be much more effective to have—separate regulatory systems for greenhouse gas emissions and local air pollutants.

It was thought that there could be some very real potential for cross-border trading with the United States when it came to local air pollutants, and there was strong interest on both sides of the border in pursuing that.

Notwithstanding the previous comments I made regarding the conclusions of these two workshops that we facilitated in Ottawa and Montreal in late December, I would like to continue on in my intervention to state that what we need to do—and urgently—is put in place a regulatory framework for our large industrial emitters that gives clear signals that significant emission reductions in the not-too-distant future will be required, but that also provides the necessary wherewithal to make the transition as smoothly as possible.

I would like to note, notwithstanding the comment I made earlier, that we are not—and I would like to emphasize we are not—operating in a vacuum here, and the more the system we develop here allows for linkages with our major trading partners, the more effective it will likely be. There is a keen interest in many of these countries to develop an effective global carbon market, and Canada needs to seriously consider its role in such an equation. We're well aware of the United States and the European Union, but we are also hearing the same sort of message from countries like Australia, where Prime Minister John Howard recently established a joint government-business task group on emissions trading. Their terms of reference include advising on the nature and design of a workable global emissions trading system in which Australia would be able to participate. Why? Because economic model after economic model convincingly demonstrates that a global carbon trading mechanism will significantly reduce the costs of meeting our ultimate objective of delivering a safe climate system to future generations.

As it was put to me yesterday, in the case of climate change, just as emissions know no borders, so do emission reductions. Of course, we also need to focus on developing mechanisms and technologies here in Canada, but it is not an either-or scenario; in fact, if these technologies were properly designed, Canada could take advantage of the carbon market as a way of launching and commercializing relevant carbon-reduction technologies.

But what of meeting Kyoto, once again? Who knows, at this point? Remember, we are talking about trying to forecast Canada's emission trajectory six years from now, and we mustn't lose sight of the many flexibility provisions in the Kyoto Protocol beyond the so-called market mechanisms. In particular, I am referring to the compliance provisions under the Kyoto Protocol. Under it, the Government of Canada has an opportunity to borrow from its future commitment period and add an interest rate to meet its target of 2008 to 2012. Doing so credibly would mean we could still begin developing a regulatory framework that begins sensibly, with a clear message that significant reductions would be required in the next commitment period—after 2012—and, crucially, a much more comprehensive plan that will address all relevant sectors of Canadian society.

● (0915)

This would include significant support now towards large infrastructure investments in areas such as carbon capture and storage, clean coal, and a clean east-west transmission line across Canada; the rapid acceleration of incentives for alternative energy initiatives, including distributed generation or cogeneration, and combined heat and power; accelerated fuel efficiency standards in the transportation sector; and strong policy signals directed towards energy efficiency and conservation programs.

I am convinced that if we put these elements in place over the next year, we will be pleasantly surprised at the scale of reductions we actually will be able to achieve, and we will demonstrate to the global community that we are a serious player in addressing climate change.

In regard to this latter consideration, it is important that this committee consider that the government made a series of commitments at the last meeting of the ad hoc working group on further commitments for annex 1 parties under the Kyoto Protocol, held in Nairobi, which commits it to undertake and communicate an analysis of the mitigation potential of current and future policies, and identify a possible range of emission reductions and the means available for achieving them. The sooner we have a comprehensive plan and analysis in place here in Canada, the sooner we can play a meaningful role in these critical discussions regarding post-2012 commitments. As I understand it, we have a deadline of February 23 to provide initial submissions, and it would be useful to know what the Canadian government is planning to provide in that respect.

I would also be curious to know the status of two other submissions for which Canada has missed deadlines. Under the Marrakesh accords, Canada, along with all other annex B parties to the Kyoto Protocol, committed to provide an initial report by January 1 of this year. That in essence demonstrates that Canada has the infrastructure in place to participate in the first commitment period, including the ability to measure and track our greenhouse gas emissions. This includes, among other elements, providing a complete inventory of our greenhouse gas emissions, including sources and sinks, a clarification of what will be counted under managed forests, and a description of our national registry. To my knowledge, Canada has yet to even develop any such registry.

Canada has also missed the deadline in submitting its fourth national communication, which provides an update on Canada's national circumstances and progress in reducing its greenhouse gas emissions. This was due January 1 of 2006, which means that the government is more than a year in arrears in meeting this commitment.

These oversights, unintended or otherwise, point to the fact that for too long, and I must emphasize under a number of prime ministers—this didn't just start a year ago, this has been under a number of prime ministers—there has been a serious gap in federal policy-making between domestic and international considerations. I cannot emphasize the extent to which we are suffering in terms of our international reputation and credibility for it.

The very word “Kyoto” has taken on all sorts of connotations, most of which unfortunately have only worked to needlessly politicize the issue of climate change in Canada. In particular, all the attention on our specific targets has resulted in our losing sight of the fact that the Kyoto agreement has critically established, and continues to establish, the international policy architecture for addressing climate change, from methodologies for how we count, verify, and report our emissions, including biological sequestration activities, to developing work programs for adaptation, and establishing the rules for the operation of the many flexibility provisions in the agreement.

I have one final thought, Mr. Chairman, on the implications of the Intergovernmental Panel on Climate Change report out of Paris a few weeks ago. In my view, the most critical conclusion coming out of that report was the indisputable link demonstrated between human activities and the global warming phenomenon. In response to that, the way forward means a carbon-constrained future over the 21st century. Let us be clear: there is no more ambiguity around that. This means that the Canadian economy must adjust to that reality.

More to the point, I would submit that the time is right for a comprehensive national dialogue on Canada's energy priorities and interests. All constituencies in Canada, as far as I'm aware, whether at the federal, provincial, or municipal level, appear committed to becoming “clean energy leaders of the world”. What that actually means, and how we can make it happen for the sake of the environment and the economy, need to be urgently addressed.

In closing, Mr. Chairman, allow me to simply repeat what I already stated before the Standing Committee on the Environment last November: Ultimately, successfully addressing the grave and pressing threat of climate change means an evolution in understanding what national interests truly signify: acting responsibly for the sake of the environment and our children.

• (0920)

The latest polls clearly demonstrate that Canadians are ready and impatient to face the challenge. It is time, I humbly submit, for politicians of all stripes to demonstrate the same resolve in a constructive spirit.

Let us not let the issue of targets get in the way of getting started in a real, productive, and constructive way that benefits our global environment and works to put Canada truly in the lead as a global clean energy leader.

Thank you, Mr. Chairman.

The Chair: Thank you, Mr. Drexhage.

We'll turn to Mr. Delbeke.

Mr. Delbeke, could you identify your assistant, please?

Mr. Jos Delbeke (Director, Climate Change and Air, Delegation of the European Commission to Canada): Good afternoon... or good morning in Ottawa.

My name is Jos Delbeke. My colleague is Mrs. Dranseikaite, from the International Department of the European Commission dealing with environmental issues.

It's a great pleasure to address your committee today.

I can assure you that within the EU we are having a very lively debate on climate change. We had unusually high temperatures during the winter. We also had very convincing new scientific evidence—the IPCC report was mentioned, and we had the economics review by Sir Nicholas Stern from the U.K. I would even go as far as to say that not a single day is passing without newspapers and media making reference to climate change and the issues in front of us.

Within that context, Mr. Chair, allow me to make three basic points: the first is the global political context of decision-making in the EU on climate change; then, to perhaps go into more specific issues on the European's emissions trading scheme; and then some specific comments related to the economics of what we are doing—air pollution, local air pollutants and things like that.

First, on the global political context, I think the European Union is preparing its act to address not only the commitments under the Kyoto Protocol but also how to prepare for the longer term. In terms of the climate change science, 2012 is around the corner and we have to put it into a perspective of at least 2020. That's so we can reassure our economic decision-makers in private companies and give consistent and coherent signals to our consumers in terms of using the technologies and equipment we need in the future.

Cost-effectiveness is a very important element of our discussion. In fact, on January 10 the commission made some important decisions to put on the table of our heads of state meeting on March 8 and 9—in a couple of weeks from now. These heads of state and government are expected to pronounce themselves on long-term climate change objectives for the EU. They are addressing a coherent package of measures in the fields of energy and climate. It deals basically with three sorts of issues, which are an important overlap in what we are discussing here. These are issues related to the improvement of energy efficiency generally—buildings, cars, appliances, etc. We think we are not doing too bad in the world today, but there is a lot more we can do. We have the technologies available for that.

The second issue is how to put much more effort into the development of renewable energy sources. It's not only about solar and wind, in which we are doing relatively well so far, but also to develop biofuels and the new technologies in this respect.

A third element that we are developing is on carbon capture and storage. We think this new technology is about the future of using fossil fuels in a sustainable manner and the future use of coal. This is a very important message when it comes to other parts of the world, not only in Europe, but in China, for example, or South Africa or Australia, where plenty of fossil fuels and coal resources are available.

In that context, the European Union will discuss two kinds of targets. In view of 2020, there is a target for the developed countries as a group. We think we should put a target on the table for the developed countries of a reduction of 30% by 2020 on 1990 levels.

●(0925)

At the same time, our heads of state are going to discuss how within the EU, irrespective of the international negotiations on this

30% target, we should now adopt a target of a reduction of 20% of our greenhouse gas emissions by 2020, measured on 1990.

To put that into perspective, today under the Kyoto Protocol, the EU is reducing its emissions by 8% by 2012. We would take a unilateral commitment to go further from the minus 8% in 2012 to minus 20% in 2020, primarily through the use of new energy technology.

It is our firm commitment to develop and to take leadership in the development of technologies, the energy technologies of the future that the world is going to need.

Only a few days ago the European Commission also put forward, at the table of the council, quite an ambitious proposal to radically reduce the fuel consumption of cars from the more or less 160 grams per kilometre that we have today down to 130 grams in 2012, which means a significant improvement.

Our car manufacturers are looking into that. On average, we think we have all the technologies at hand, but putting it into reality is of course going to be a major industrial challenge that we are happy to take on.

Similarly, when it comes to fuels, we have on the table the commitment to gradually decarbonize the fuel content of our transport fuels, with 1% on average between 2010 and 2020. The cars in the fuel proposal would bring us a reduction of 500 million tonnes of carbon dioxide by 2020, which is the equivalent of the member states, Spain and Sweden, today.

As an introductory comment, the European Commission and other heads of state are going to discuss these issues in a couple of weeks. They are very much determined to continue our commitment on climate change within a long-term perspective, and that means beyond Kyoto.

My second point is on the emissions trading scheme the EU has developed. In fact, our scheme has been up and running since January 1, 2005. As we see it, it is the pre-period, 2005-2008, the period before the Kyoto Protocol starts. We know our system is up and running, but at the same time, we have a number of points to address.

In fact, Europe lacked the database, if not to say the very demanding database, that was needed to launch the system. The pre-period of 2005-2008 has now given us all the tools to be ready by January 1, 2008, when the Kyoto period starts, to have all the elements of the infrastructure in place.

Our scheme today is covering all major industrial installations of the industry in the power sector, some 11,000 installations, covering roughly half of the emissions of the EU, and that means the 27 member states we are forming today. In 2006 the market volume of real changes of emission allowances was in the order of magnitude of \$22.5 billion Canadian.

The system is up and running. As I said, we have some teething problems to address, and we are addressing them. As part of the review, we are also studying how to extend the system in two ways.

On more sectors, we have international aviation on the table. A proposal is being discussed these very days in your beautiful country, in Montreal, in the context of ICAO.

We also have a lot of proposals and ideas on the table on how to internationalize the European trading scheme, and we in fact have two vehicles to do that. We have the Kyoto Protocol that is creating the so-called project-based instruments, the clean development mechanism and the joint implementation mechanism.

Today our European member states have committed more than \$4 billion Canadian for the period up to 2012. When I observe what our public authorities in the member states are planning, I think this figure is going to increase.

● (0930)

Before I move on to the other possibility of linking, we think that investing in projects related to clean technology, such as in the context of the clean development mechanism, is a very good case of technology transfer. It is a very effective way of cooperating with developing countries, and on top of that, it is a very cost-effective way of reducing the compliance costs that our companies are incurring. There is quite a bit of support, because after all, greenhouse gas emissions do not know any borders. If we can, with the same euros spent, reduce emissions more in other parts of the world compared to what we do in Europe, we think that is a good economic case to be made, and we collectively think we should go for it.

Of course, a very important question for public opinion here is that any moneys spent on the clean development mechanism and on joint implementation should be spent in a very solid way, not in a way where we just would transfer moneys, finance, but in a way whereby it is money spent in tangible emission reductions, in tangible investments wherever in the world, but in tangible emission reduction projects. That's a very important element. What we are discussing here in the context of the CDM NGI is not what some are calling hot air coming from the ample availability of emission allowances in the transition economies, which have a quite significant downturn in economic terms.

Where we are putting a lot of effort in is to see whether, in a medium-term perspective, we could link up our own cap-and-trade scheme with trade schemes elsewhere in the world. We were more than happy to be present in a working group, as was mentioned by John Drexhage, in Canada, and we are more than eager to follow up that discussion if there is an interest in Canada to do so.

We are in close cooperation with our colleagues from the California Air Resources Board. We are increasing our contacts wherever in the world on this issue, and this possible way of linking trading schemes around the world is becoming an issue of very high attention here. Let me underline that it would be our pleasure to cooperate with Canada further and in a more operational way in this respect.

Just to finalize, I have a couple of comments I would like to say on issues that were just raised. We think indeed in dealing with local

air pollutants there are a lot of co-benefits to be reached also in terms of climate change. In fact, there is some ability to go either for tackling local air pollutants and have a side benefit in terms of greenhouse gas emissions, or just go the other way around. I think we are looking at both sides, but in particular also at the co-benefits when we regulate cars and fuels in the European Union, as I indicated. But there is a strong economic case to be made for acting in transport. If we are clever, we can have co-benefits in terms of traditional local air pollutants and climate change.

We did a lot of economic studies. In fact, related to the climate paper that the commission was adopting we have a full-fledged economic analysis attached to it that is available on our website. We think there is a good economic case to be made about climate change and the policies related to that, if only we go for the development and deployment of the new energy transport and industrial technologies in our economic system.

● (0935)

As my last comment, Mr. Chair, we have had in the European Union now almost a decade and a half to two decades of reflection on what needs to be done on climate change. The Europeans made a deliberate choice not to go for carbon taxes. We had a discussion on carbon taxes. We have a standing tradition on energy taxation, but we were making a deliberate choice for emissions trading, emissions trading primarily among actors within the EU but also with an openness to link up with those mechanisms created under the Kyoto system and with those, wherever in the world, who would develop similar trading systems.

So there is a strong determination for the Europeans to continue with emissions trading. The emissions trading we currently have is not limited to the Kyoto Protocol, so it's not going to stop in 2012. But in operational terms, with the targets that are now on the table, we are extending the timeframe up to 2020. We are open to any discussions, with whoever in the world, to follow that up in more operational terms.

Thank you, Mr. Chairman.

The Chair: Thank you very much, sir.

I'll remind members that Mr. Delbeke will be back before the committee on February 27 to speak about emissions trading specifically.

We'll start our round of questioning with Mr. Godfrey, for seven minutes.

Hon. John Godfrey (Don Valley West, Lib.): Thank you both for being here—in Mr. Delbeke's case, in such a carbon-saving way.

I'd like to pick up where Mr. Delbeke left off and ask both of our guests a question about the clean development mechanism as envisaged under the Kyoto scheme. Let's say someone were to describe the clean development mechanism in the following way: We will not spend taxpayer dollars to buy international hot air credits just to meet our Kyoto targets; these hot air credits would be a bad investment for Canada, spending billions of dollars abroad for zero environmental benefit.

I would like to ask both of you whether that represents a complete and well-informed understanding of the way in which the clean development mechanism is supposed to work, or is actually working, under the Kyoto Protocol.

Mr. Drexhage.

Mr. John Drexhage: I think it's perfectly within the government's mandate to decide exactly what kind of actions it feels are the most effective in meeting the targets we have committed to. I don't want to get into the business of saying that the government should or should not get into the business of buying credits. I'm simply trying to clarify that in terms of what's available out there, there are an awful lot of legitimate activities taking place where real reductions are happening.

I'd like to give you the examples of the Ukraine and Russia, because hot air is mostly identified with them. If the government so chose, it could provide the flexibility to industry—and as I understand it, the government is still considering this option—to purchase internationally. I would strongly urge the government to keep that option open as far as industry is concerned.

To give you an idea, some 45 projects have now been fully approved through the UN system. These are referred to as joint implementation projects, but they are of the same type as the clean development mechanism projects you just referred to, Mr. Godfrey.

Some 93 megatonnes in reductions have been achieved through these projects. If you look at the areas, they're areas where in fact Canadian industry has an awful lot to contribute. They're areas such as energy efficiency, fuel switching, coal mine methane, and—the most significant one—fugitive emissions from oil and gas.

To give you a very concrete example, we're incredibly efficient with our natural gas transmission compared with countries like Russia or the Ukraine, where they have significant fugitive emissions. Now, what is more cost-effective from the perspective of a company like TransCanada Pipelines? Is it to spend a certain amount of dollars for a very minute reduction in greenhouse gas emissions—which would be the case in Canada, because we're already relatively so efficient in that department—or is it, for the same money, getting a much bigger bang in terms of greenhouse gas reductions in countries such as the Ukraine or Russia?

Some 42 megatonnes have already been saved. The methodologies for demonstrating that kind of saving are very easy to establish. The monitoring is very easy. I'm not trying to say here exactly whether the government should get in the business of buying credits or not buying credits. I'm simply trying to say that we should keep that option open if in fact we want to try to allocate that responsibility, then, to large industry.

● (0940)

The Chair: I'll just point out that we've lost Mr. Delbeke. I think we're trying to get him back now.

Why don't we continue, Mr. Godfrey, with your questioning?

Hon. John Godfrey: I'm sorry about Mr. Delbeke. Maybe we can have another chat.

Mr. Drexhage, there has been a lot of talk about intensity targets. Can you tell us the challenges of intensity targets versus hard caps with regard to emissions trading?

Mr. John Drexhage: Yes. Mr. Delbeke could probably deal with this as well.

By no means am I a technical expert on this, but I think the biggest problem is simply “truing up”. When you're doing an intensity-based system, you basically have to make an estimate at the beginning of the year of how many megatonnes you would expect that reduction to provide. Then you can put those megatonnes on the market for trading purposes, and then at the end of the year you have to verify how many reductions it actually provided. It can be done, but it represents one more little wrinkle in terms of the overall efficiency of the system.

I would also point out that in the United States it's sort of “let a thousand flowers bloom” time as far as the different cap and trade systems that are being proposed. There are systems being developed in New England, in California, and there are over a dozen proposals on the Hill right now in terms of these emissions trading proposals. Of all of them, only one, proposed by Senator Bingaman from New Mexico, is an intensity-based system.

There are a couple of other Canadian wrinkles as well that are seriously being considered and have been considered for the last few years. The other one relates to the technology investment fund. There is quite a bit of interest in the United States in some kind of technology wrinkle in part of the system, so I wouldn't be surprised if that is somehow captured. And also, in terms of some kind of price signal or price cap, the jury is split as to whether or not an American system would eventually provide that.

Hon. John Godfrey: Can I go back to Mr. Delbeke briefly?

The Chair: Yes.

Mr. Delbeke, you're back?

Mr. Jos Delbeke: Yes, we are back, and I was so sorry that we missed the question.

Hon. John Godfrey: Let me rephrase the question. Quite simply, is the clean development mechanism and the joint implementation mechanism under Kyoto the same thing as buying hot air? Or can we be assured that there is verifiability for these emissions internationally and that there is a true reduction, as is envisaged under the Kyoto plan?

Mr. Jos Delbeke: For us there is a very fundamental difference, in the sense that the credits we earn under CDM are related to projects, to investments, to real tangible things that are controlled by the UNFCCC. In that context, a CDM executive board was created.

To my knowledge, we have had only one accident so far, and that was projects related to HFCs in China that were relatively cheap, a cheap way of trading emissions that sparked a little bit of controversy and which we will bring to the table to redress. But it is the exception, not the rule. We have very good experiences with CDM projects. What we will have to pay attention to is that we diversify CDM projects all over the globe, and not just concentrate them in Asia or in one major country such as China. It makes a lot of sense, but at the same time we should not forget about other parts of the world, and in particular Africa.

These CDM credits are to be distinguished from trade in the so-called “assigned amount units”, the AAUs under the Kyoto Protocol, because we are less sure that AAUs being traded are corresponding with clear emissions reductions. To date, no single European country has traded AAUs outside the EU, and the reason is exactly this. Within the EU and in the context of the emissions trading system, we are exchanging AAUs, but there is a whole infrastructure behind that EU ETS to make sure that real emissions reductions are corresponding with what is being traded.

So while we are, in public opinion, definitely positive about CDM, I see a completely different case with the AAUs and in particular those that come from Russia, since we do not know exactly whether corresponding emissions reductions would happen.

Thank you.

• (0945)

The Chair: Thank you, Mr. Delbeke.

We'll move on to Monsieur Bigras, for seven minutes.

[*Translation*]

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

My questions will be for Mr. Delbeke, from the European Commission.

Europe, which has to reduce its greenhouse gas emissions by 8% from the 1990 level certainly has a better record in this regard than that submitted by Canada in Nairobi. You have decided to rely on section 4 of the Kyoto Protocol, that is the option of reaching your goals in a joint manner. So you have decided as soon as June, 1998 to adopt a so-called tryptique approach that reconciles the sectorial and territorial approaches.

Thus, Europe must reach a goal of minus 8% compared to the 1990 level of emissions. However, this system allows countries such as Greece to increase by 25% their greenhouse gas emissions. By contrast, Luxembourg must reduce its emissions by 28%. During the negotiations, an English representative had described the proposal of putting forward the tryptique model as being logical, defensible and transparent. Only if the tryptique approach had been deeply flawed could it have been rejected out of hand.

What benefits do you perceive in such a model that you have implemented in order to reach the Kyoto Protocol objectives?

[*English*]

Mr. Jos Delbeke: Thank you very much.

This is a very important issue indeed, and with hindsight I think at the European Union we thought that this differentiation was necessary in order to cater to the very different circumstances in the member states in climatic conditions, but also in economic conditions. We have very different energy structures, for example. We have member states that are relying heavily on nuclear power—France or Belgium, for example—while we have member states that rely very heavily on coal-fired power stations and things like that.

It was not possible for the EU, given that we are dealing with a large number of relatively small member states, to deal with one single number that we would impose on each of them. Some have very many cost-effective reduction possibilities, others do not have that. But together, we can sort it out. That's why, while today we have a commitment of minus 8%, together for the EU it's 15%, because we have to take the historical conditions of the EU into consideration. Today we are at minus 1%, so we still have 7% to go. It's not because we have the luxury, so to speak, of the joint approach that we are not having very intensive discussions of how to economically cope with emission reductions, because emission reductions do not fall out of heaven. We have to invest in it; we have to spend money on this. We are doing it together. But one lesson we have learned in this entire debate, and certainly after a couple of years of intensive implementation, is that cost-effectiveness really does matter a lot. That is one way.

Sectorally, we differentiate, but also according to member state we differentiate. But after all it is the result that matters. We are going to deliver the minus 8%; we are on our way to doing that. Cost-effectiveness has been the issue that brings us to where we are today, and that is going to bring us to the minus 8% by 2012.

• (0950)

[*Translation*]

Mr. Bernard Bigras: I do want to congratulate you for having succeeded, starting in 1998, in reaching an agreement in only two years and this, in a market that was made up at the time of 15 independent countries. It is rather interesting to see that these 15 countries have been able to agree within two years on a common approach enabling them to reach the objectives of the Kyoto Protocol.

I would like to know whether, in your view, this tryptique approach, which reconciles the sectorial and territorial approaches, has facilitated the quick implementation of a carbon market and exchange within the European construct.

[*English*]

Mr. Jos Delbeke: Well, definitely, because in fact the 15 member states—now we have 27—do hang together very intensively within a common economic market. So environmentally speaking, we can learn from each other. Economically speaking, within such an integrated economic market we have to minimize economic distortions. Otherwise, member states are blocking each other. They are sitting on the fence and seeing what the others are going to do.

As part of our emissions trading scheme, we have to agree on national allocation plans. The commission has been developing a common methodology to make sure that industry, the power sector, and energy-intensive industry is treated in a very comparable way in the different member states. I'm absolutely sure that without such a common approach, it would have been extremely difficult for every single member state, on its own, to reach the targets in a cost-effective manner.

Our experience to date I think has been helpful, and emissions trading has facilitated that a lot.

Thank you.

[Translation]

Mr. Bernard Bigras: Mr. Lussier.

Mr. Marcel Lussier (Brossard—La Prairie, BQ): Mr. Delbeke, there are 11,000 installations that are being targeted by the regulations concerning greenhouse gas emissions. What are the categories of installations or plants that are not targeted by this regulation?

[English]

Mr. Jos Delbeke: In fact, what we have targeted are the major industrial installations of Europe. That's power, that's steel, that's ceramics, that's pulp and paper, and so on, and that includes chemical crackers—not the refined chemical applications, because we have lots of small companies, but really, the major industrial installations.

Now, we had a problem with them. We knew them. We had a permit for traditional pollutants, but we didn't know exactly what the greenhouse gas emissions of these plants were. So we asked every single plant to make a report, themselves, and to have that report verified by an independent verifier, very much like we see in the financial markets with accounting procedures, where a financial report is made and that financial report is verified by a third party. That has helped us to create, in less than one year, a coherent database that is very transparent and is available on the Internet and can be looked at by everybody. It has created a lot of transparency about the emissions of every single plant.

Even stronger than that, I have been told that because of the emissions trading market, and because of a price now being attached to carbon, the attention of every single CEO has been raised about what is happening in terms of greenhouse gas emissions in his own plant. So it's a very simple way of making accounts and speaking the language of the CEO and those making economic decisions.

Thank you.

• (0955)

The Chair: Thank you, Mr. Delbeke.

We'll move on to Mr. Cullen for seven minutes, please.

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

I have a question for Mr. Drexhage on the reporting to the United Nations, on Canada's behalf, that is not happening. Could you be a bit more clear? To the public hearing this—that Canada has missed some reporting dates and we're more than a year late—that might not

sound all that controversial. Why is such a thing so critical to Canada's efforts related to Kyoto and to climate change in general?

Mr. John Drexhage: First of all, it sends a signal. While we're getting a signal about Canada having difficulty reaching its target, which is a very legitimate point, and Canada will be having a lot of challenges in meeting its target, there are protestations that it's only the target we're not talking about not meeting, but we're bound and determined to meet all other provisions relating to the Kyoto Protocol.

In terms of our credibility, when we're not meeting these deadlines in terms of the initial report, which basically lays out the field, defines the field, and defines the parameters by which Canada will be reporting internationally on how it's reducing its greenhouse gas emissions and how it's meeting or not meeting its commitments—

Mr. Nathan Cullen: Just to be clear, in terms of laying out the field to say where Canada's at right now and where we plan to go in the short term, we haven't even told this to the international community.

Mr. John Drexhage: No, and there was a deadline for January 1 for doing that. One of the examples was to what extent are we going to use our managed forests as part of our inventory. There's a real issue on this in a country like Canada. Because our forests are so vast, like Russia's, we have to determine, in terms of our forecast, whether or not Canadian forests would actually represent a net sink or a net source. So we have to tell the secretariat whether that is going to be part of our calculations in terms of our assigned amount.

Mr. Nathan Cullen: To be clear, when Kyoto was established and set up as a framework, countries and the UN recognized how cross-sectorally difficult this would be. These reporting times—deadlines to have our homework in, if you will—were to ensure that countries were on track.

Now, you said January 1 of this year or the previous. How late are we on reporting the basics of where we are and where we're going?

Mr. John Drexhage: There were two reports due that we're now tardy on, as I understand it. The first one was the fourth national communication. Every few years, we are to provide a national communication that basically provides an update on our national circumstances, our emissions trajectory, and the measures we're taking to mitigate our greenhouse gas emissions. That was due January 1, 2006, and it's yet to come out.

Mr. Nathan Cullen: To interrupt you there, those things you just listed seem extremely fundamental. In the absence of those, unless a government were keeping it secret, it would tell the international community, we have no idea where we're going.

Mr. John Drexhage: I'm just saying that's the formal mechanism by which these sorts of things are communicated. I know that figures have been bandied about. The Prime Minister made a presentation a few days ago about how far out we are from our target. We need to fill that formal obligation of providing the international report; that's what we committed to.

Mr. Nathan Cullen: This is a question for Mr. Delbeke in a moment. Do we have an inventory of Canada? Do we know where the GHG emissions are coming from right now across all sectors?

Mr. John Drexhage: Yes, absolutely, we have pretty accurate knowledge of that as of the 2005 emissions.

Mr. Nathan Cullen: Mr. Delbeke, the European Union as a whole seems to be.... You mentioned 8% is the target, and 1% is how much you're at right now, with some years to go. Yet certain nations within the European Union are well off their targets; I'm thinking of Spain, Portugal, and some of the others. What types of efforts are you seeing from those off-target countries, in terms of meeting their obligations?

Mr. Jos Delbeke: Basically there are two things we are doing. The first is that in the context of the emissions trading scheme, every member state has to allocate, before the trading period, to each of the installations in their countries a number of allowances, because the allowances are not auctioned on the market; they are given out for free. So a member state that is way off track, such as Spain, is having very tough conditions. They don't have plenty of allowances to give to their companies.

In reverse, member states that have done a lot in the past, for example in transport, or have a target that's much less, due for example to forest availability, have more leeway. They have more allowances that they can give to their companies.

What we look at in the commission is the balance between the two: on the one hand, the availability of allowances, given that the Kyoto target is what it is for each and every single member state; and on the other, sound, competitive economic conditions, so as to avoid the distortions of competition that would creep in—for example, in the context of the liberalization of electricity markets, which we are going through. So we have these two: the economic conditions and how far member states are away from their Kyoto targets.

The national allocation plans, which we are currently going through, are very difficult exercises to handle for that reason. Out of the 27 national allocation plans today, we have done 13.

You may have seen where we were criticized here or there in the press for having been too tough or not tough enough. The two conditions were economic conditions on the one hand, and the availability, or the question as to whether Kyoto was within reach—yes or no.

•(1000)

The Chair: Short question, and short answer, please.

Mr. Nathan Cullen: To Mr. Drexhage, are you aware of any market regimes that use intensity-based targets to establish a trading market? Do we not simply have to capitulate to whatever the U.S. comes up with in a couple of years anyway? And is there something we should build into our planning right now to allow flexibility for whatever the U.S. comes up, being that it is such an important trading partner?

Mr. John Drexhage: I'm not sure if anything is actually in place now. I am very well aware—as probably all of you are as well—of Alberta's intent to submit a regulatory framework that would be an intensity-based or -driven system, so we'll have to see exactly how that comes out.

As far as integration with the American market today is concerned, I think that's a very relevant point. The Canadian market in and of itself, as an isolated market, could only operate for so long; over the years, there would be insufficient liquidity for the Canadian market to be a truly effective, sustainable carbon market. So yes, we do have to be very aware of what the U.S. is developing, but notwithstanding that, if we have certain priorities that we think need to be addressed from a Canadian perspective, then we need to communicate those clearly, quickly, and urgently to our relevant American counterparts.

The Chair: Mr. Jean for seven minutes, please.

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

Thank you to both of the witnesses for coming today and presenting.

I'm wondering, first of all, have the witnesses seen our Bill C-30 legislation? Have you had an opportunity to review it?

Mr. John Drexhage: Yes, absolutely, and in particular, the statement of intent.

Mr. Brian Jean: Have you any suggestions for changes to the legislation? Have you drafted any, or would you be prepared to provide the committee with any suggested changes?

Mr. John Drexhage: Yes, we would be very keen to provide changes to the legislation.

One of the ambiguities, if I might say, is that although we were asked to address international aspects related to the Clean Air Act, the act is very specifically focused on domestic legislation, which made it difficult to figure out exactly how it would be integrated. But I'd be very open to doing so.

Mr. Brian Jean: Please do.

Mr. Delbeke, did you hear my question?

Mr. Jos Delbeke: Yes, I did, and I have to admit that I'm not sufficiently familiar with it to answer your question right now, but I'm more than ready to do so on one of our next occasions.

Mr. Brian Jean: I'm wondering if the clerk could send a copy of our legislation to you, and if you had the time to provide an answer, it would be greatly appreciated.

Keeping in mind that Canada is a little bit different from the European Union.... We have, of course, a much colder climate than many areas in Europe, and we drive about 30% farther than people in Europe, on average, just because of our huge country. Also, of course, we're a primary production country and heavily reliant on primary products economically. What do you see in the European Union, Mr. Delbeke, that could apply to us and help us? Hindsight is always 20/20 from my perspective, but what do you see we could do differently from you've done to take advantage of some of the better tools and better regulations and to pick up some low-hanging fruit that would help us meet our targets? Because we're obviously so far away at this stage, at the back of the pack.

So I have three questions: the tools and regulations, and any low-hanging fruit that you could see us grabbing right away, keeping in mind the kind of country Canada is.

•(1005)

Mr. Jos Delbeke: Perhaps I have three answers to your questions.

First, what we have learned in the EU is that differentiating the targets is a worthwhile exercise. Originally, not everybody in the EU was convinced we had to do that, but if we had not done that, a cost-effective reaching of the Kyoto targets would not have been possible. Differentiating according to the different member states and their energy structures and economic structures is something I would assume is very much present in Canada as well. You have a vast country, and the provinces and their economic structures are very different.

The second element that I think is very important in any set-up, apart from cost-effectiveness, is simplicity. That's why in Europe we have gone for cap and trade—absolute caps, as they are sometimes called. We were a little bit afraid that intensity targets would unnecessarily complicate the system. Though they could provide some flexibility, at the same time, they could create complexities, and we would have less clarity and hence the risk of less certainty on the market.

The third element of low-hanging fruit is certainly available, with a lot of tools and appliances available today. We had a recent discussion on cars, for example. In most cases, we know which cars are more attractive than other cars in the context of climate change and mitigation, so the technologies are mostly there. If we take the first bite of the cherry, the first 10% or 20% of every single measure, we are probably dealing here with low-hanging fruit—and we need the right incentives in place.

These replies are a first shot at your three questions.

Thank you.

Mr. Brian Jean: Thank you very much.

I've been looking at a graph from the International Emissions Trading Association and the World Bank. When I looked at this, I was kind of shocked to find that the sellers of these credits were China, 66%; Brazil, 10%; and India, 3%. What is the EU policy on having any conditions on the world buyers or sellers of these credits?

For instance, there have recently been some questions on human rights or pollutants. For example, I understand China is building one coal-fired plant per week. They have huge production facilities that take very little account of environmental waste. In Brazil, for instance, some people talk about the devastation of the forests.

Are there any conditions on the use of the money or on other things domestically within those countries when the EU considers trading for credits or other trading mechanisms?

Mr. Jos Delbeke: The EU is strongly committed to a multilateral approach to these things. We have put a great deal of hope on a good functioning CDM executive board.

Whatever comments we have—and I mentioned some of them, like on the HFC, two easy-to-go projects in China—we make them through the Kyoto Protocol institutions through the UN. We think it is at that level that we have to address them.

Having said that, there are questions that we get, but they are questions in terms of massive pollution and in respect of

international environmental law. They are basically outside the greenhouse gas emissions that we are discussing here.

When it comes to the CDM credits, a strong emphasis on a good and functioning executive board for the CDM is where we are putting our emphasis.

Mr. Brian Jean: Mr. Drexhage, I feel that you have a pretty good perspective on international matters.

Mr. John Drexhage: Thank you.

It's a very interesting question and a very relevant question that you pose.

There's one thing to point out as far as the China experience is concerned, which Jos has mentioned. The Chinese government has unilaterally suggested that it is going to set up a sustainability fund. All funds collected through the sale of the HFC, through the credits of the HFC projects, will go into specific discrete funding for sustainability and clean energy, etc. It's yet to be defined exactly how it will be addressed, but at least China is going some way towards addressing those concerns.

At IISD we are very mindful of the fact that a clean development mechanism has two mandates, and it's laid out very explicitly in the Kyoto Protocol under article 12. It's to help annex 1 parties reduce greenhouse gas emissions, but as importantly, on the same level, it's to provide development benefits to developing countries. It's to provide them with a means to address poverty eradication. For us, it's a very integral part of what the CDM needs to be about.

We're in the third phase of what we call the “development dividend” for clean development mechanism projects. We're looking for those projects that can provide significant greenhouse gas reductions, such as energy efficiency, transportation, avoiding deforestation, etc., that can also provide significant development benefits. We're very much working in that direction.

You were asking about the lessons to be learned, etc., from the EU. I would very quickly like to reiterate what I said at the beginning of my intervention.

Begin simply and gently as far as the regulatory framework. With all the political heat as far as the target is concerned, I'm a little concerned that people are going to call for some kind of regulatory framework in which we could try to bite off more than we can chew. Remember that when the EU initially put in their system, they did so within a very moderate allocation system.

In other words, we need some time to prime the system. It's unfortunate that we've had to wait until now to start developing it and we're so late in the game. But whenever we're going to start, let's do it sensibly.

•(1010)

Mr. Brian Jean: Thank you.

The Chair: Thank you.

Mr. McGuinty, for five minutes.

Mr. David McGuinty (Ottawa South, Lib.): Thanks, Mr. Chair.

Thank you, witnesses.

Mr. Drexhage, if I could start with you for a second, I want to confirm something and I only have five minutes. You could help me with a yes or a no.

I understand that we're not meeting our targets in Canada now under Kyoto. We're also not meeting our reporting requirements under Kyoto.

It appears that in the new government's "Moving Forward on Climate Change" report, it states that the associated federal investments by our country were envisioned to be in the range of \$10 billion, over seven years. In fact, what the government has done is restate our government's previous green plan. But we've now discovered those numbers have in fact gone forward, even though the government cut \$5.6 billion off the program.

The second point I want to put to you is this. Not only are we not meeting our reporting requirements, but internationally we have knowingly misrepresented what we're doing in the country.

Third, we heard from the Minister of the Environment last week. To quote him: "We're not looking at participating in an international carbon market." Apparently, we're now not going to use Kyoto mechanisms like the CDM and joint implementation.

On all three fronts, we are in breach of Kyoto. Are there any other ways that we're in breach of our international obligations under Kyoto?

Mr. John Drexhage: In which we are what?

Mr. David McGuinty: Are there any ways in which we are in breach of our international obligations under this treaty?

Mr. John Drexhage: Not that I'm aware. I want to clarify that it's certainly not an international obligation that Canada or any constituency has to buy international credits to meet their targets. We have to find some means of trying to demonstrate what we're doing to meet our targets, but under no condition is a government obliged to take a certain route.

Mr. David McGuinty: I turn to our guest, Mr. Delbeke, in Europe and Brussels. I'd like to ask about your experience in Europe on two fronts. You have set up a pilot emissions trading system, which you say now is going to be revisited because there is systemic fine-tuning to be done.

Can you share a little bit about that systemic fine-tuning? Can you answer critics who would say that, for example, Canada ought not to participate in the Kyoto agreement because the United States...? And they go further, suggesting that China and India are not a part of the international treaty.

How have Europeans and the European Union dealt with the fact that the United States—at least until there's a new Democratic president, I would propose—is still outside the ambit of Kyoto, and how have you dealt with this allegation by some that because China and India are purportedly not in the treaty, we ought not to participate?

Can you help us understand how the debate has gone in Europe, and what your position is now?

Mr. Jos Delbeke: On the first question, the main weakness we had when we started our pilot period in 2005 was that we did not

have a solid database on the greenhouse gas emissions plant by plant of 11,000 installations. So we had to build that up and we had to do some well-informed guesswork, but it was well-informed guesswork, and now we have that database. Since April 1, 2006, we have had that on the table just for implementing the emissions trading scheme and all the provisions related to that.

So that question is now out of the way, and what we are now concentrating on is extending the system to incorporate more sectors. For example, the aluminum sector is not covered, and some parts of the chemical sector are not covered, so we want to extend the system.

On the second part of your question, the U.S. argument related to China, I think we have that argument very much in Europe. It doesn't point primarily to China, but it does point primarily to the U.S. So the same economic argument is directed first to the U.S. and then to China. So we are having a very intensive public debate that does not underestimate the importance of having China on board, but when we have to put the emphasis right, we first put the emphasis on the United States. So the same reasoning that is present with our friends in the United States is the one that we turn against them, so to speak, and that is why we are putting a lot of effort and my commissioner is just now getting on a plane, going to the White House, going to Capitol Hill to deepen our understanding of the issues being debated, the new committee on Capitol Hill.

I mentioned our work with the California Air Resources Board. I mentioned also our contacts with the northeastern states. So it's very important that the U.S.—and, it goes without saying, Canada—joins those implementing the Kyoto Protocol to have a good argument vis-à-vis the Chinese.

Thank you.

•(1015)

The Chair: Thank you.

Mr. McGuinty, your time is up.

Mr. Warawa for five minutes, please.

Mr. Mark Warawa (Langley, CPC): Thank you, Chair.

I appreciate the witnesses' being here.

My questions are going to be primarily for the EU.

And to Mr. Drexhage, thank you for being here. You may want to forge in.

First of all, I want to assure you that your comments are being received in a political environment in which the government is hoping to move forward in dealing with the very important issue of reducing greenhouse gas emissions. We've committed to doing that. And as my colleague Mr. Jean mentioned, we're looking forward to your recommendations on how to strengthen Bill C-30, the government's bill to reduce greenhouse gas emissions and to clean the air that Canadians breathe.

I'm tempted to correct some of the comments made by Mr. McGuinty, but I'll save that for the House and get down to business today.

Concerning the EU's experience in curbing greenhouse gas emissions through voluntary versus mandatory means, the history in previous governments in Canada is that they've used the voluntary means, and we have not found that successful. As you are aware, we are now 35% above the Kyoto targets of 6% below 1990 levels—35% above. So we're in a very difficult situation, and we're looking forward to reducing greenhouse gas emissions.

I really appreciate the positive comments you've made. You've acknowledged that it's a major industrial challenge, but you're happy to take that challenge on. And we are happy to take the challenge on here in Canada.

But specifically on mandatory measures, how did you find the importance of moving to mandatory, which is what the government plans to do, to move from voluntary to mandatory? What was the experience in the EU?

Mr. Jos Delbeke: Well, we have been discussing at length any voluntary schemes in the field of the environment, not just greenhouse gas and climate change. Our experience has been much less convincing compared to what we had hoped for.

The latest one—and perhaps you have seen this in some European newspapers—is the voluntary agreement we signed with the car industry, which was a commitment made by the car industry vis-à-vis the European Commission to improve by 25% in one decade the fuel efficiency of cars.

We are a bit stuck halfway. A voluntary system, in our history at least, has very few or weak compliance provisions. And now that we are stuck halfway, public opinion is very much disappointed.

In the European Parliament people are now looking for a mandatory scheme, legislation that would put a very clear-cut obligation that has to be delivered by everybody. Otherwise, there is very weak discipline. Some are doing it; some others are not doing it. And too many are sitting on the fence.

So our experience with voluntary schemes is a mixed blessing, so to speak, and that is now a very widespread feeling that we have here.

Now, on the mandatory, when it comes to trading I think you need both buyers and sellers, and you have to have fair rules on how to distribute the allocations before the trading period starts. But you need both of them. And what is most important is that we need to bring down the emissions to have the real reductions implemented.

The question is that those that have the cheapest emission reduction opportunities can earn money by doing more than what they otherwise would be forced to do, and they can make money on top of that. And if the global or the overall emission reduction is cleared, then the environmental constituency is happy because the emission reductions are there. The economic constituency finds it acceptable because the least-cost options are being used and not the other ones.

Thank you.

●(1020)

Mr. Mark Warawa: Thank you.

The Chair: You have 30 seconds.

Mr. Mark Warawa: Then very quickly, could you elaborate on the auto industry? In Canada we've heard that if we try to meet the Kyoto targets, it would decimate the auto industry. What were the comments you were receiving in the European market?

Mr. Jos Delbeke: There are two comments. The first is that we had a very intensive debate on what the car of the future is going to look like. I think we came to the conclusion that the future is going to require a fuel-efficient and low-carbon-emitting car.

So then the question is, who's going to make that car? The discussion has evolved from an exaggerated fear that we will lose our entire car industry to the question of what we can do and what kinds of cars we should invest in to make sure that we are also going to be the producers of the car of the future.

That debate has now delivered a clear objective, a clear compliance mechanism. We still have to put it into legislation, but a decision in principle has been made. I think a very important variable in that is time. We cannot do it all overnight; otherwise we will create economic problems. But if the perspective is clear, we see that the car industry is coming along.

The Chair: Thank you.

Monsieur Lussier.

[*Translation*]

Mr. Marcel Lussier: I come back to Mr. Drexhage.

You have mentioned that penalties will be assessed against Canada for not reaching the Kyoto Protocol objectives between today and 2012.

First of all, could you explain once more the process regarding penalties?

Also, will there be a risk of reprisals from European countries regarding imports from Canada in light of the failure to meet the Kyoto Protocol objectives by 2012?

[*English*]

Mr. John Drexhage: As far as the compliance provision is concerned, I prefer to characterize it much like the government has characterized emissions trading and the technology investment fund in the notice of intent under the Clean Air Act: as a compliance provision. Under the Kyoto Protocol, that particular mechanism or flexibility provision allows countries, as I put it, to borrow from their future commitment periods. That's the compliance or consequence for not meeting your target.

If in fact our situation is that we're so close to 2008 that we won't be able to see the kinds of reductions that would be required to meet Kyoto itself, we can start making those investments now. We can give clear indications about some of these large-ticket items, such as carbon capture and storage, clean coal, and clean east-west transmission. We can start making those investments now. You can credibly and transparently show the international community that you're making those investments and that they will result in real greenhouse gas reductions after 2012. Use that in your negotiations in deciding how much of it; you will then work to compensate for your 2008-2012 period.

Meeting or not meeting Kyoto is not as simple as it seems. You in fact have the opportunity to go into the future and use your future reductions to compensate for falling short between 2008 and 2012.

• (1025)

[Translation]

Mr. Marcel Lussier: And what about reprisals by the Europeans regarding products imported from Canada?

[English]

Mr. John Drexhage: There has been the suggestion, particularly out of France. President Chirac has talked about border tax adjustments. I would expect that in the post-2012 discussions there will definitely be a strong push by a number of countries to make the compliance provisions more effective during the post-2012 period and for the post-2012 period to include some trade provisions. There is going to be some very, very interesting stuff.

If we think things are complicated now, we ain't seen nothing yet, because that's when we start getting into all the discussions with the World Trade Organization. It was a very good point.

[Translation]

Mr. Marcel Lussier: Mr. Delbeke, is there a risk that European countries might use reprisals against imports from Canada? Does this also apply to countries that are not a party to the Kyoto Protocol, including the United States?

[English]

Mr. Jos Delbeke: The issue of border tax adjustments has come on the table on several occasions, but I think it would be very fair to summarize the debate, in particular in the European Parliament, on border tax adjustments as between those that have signed up to Kyoto and those that have not yet signed up to Kyoto, so there's a distinction there.

Second, the European commission responsible for trade matters has made clear in its statements after January 10 that we have to look first at positive trade measures, and that these border tax adjustments have to be looked at in a very long-term perspective. I see this coming up as an element of the debate.

Very important on the compliance issues in the European context is that when we have emissions trading, we have liberty for a company either to buy allowances at home or to import them in terms of CDM. Now, this import of CDM credits is very important in terms of compliance issues, because we now have a liquid market for these credits. If a company risks not being in compliance, there is a cost-effective way to go into compliance: you turn to the market and ask some traders or brokers to cater for a number of credits. These JI and CDM credits have turned out to be a very cost-effective way of bringing your company into compliance.

[Translation]

The Chair: Thank you very much.

Mr. Paradis, you have five minutes, please.

Hon. Christian Paradis (Mégantic—L'Érable, CPC): Thank you, Mr. Chairman. I have three questions. The first two are for Mr. Delbeke.

Mr. Delbeke, I would like you to describe the actions that have been taken and that have been the most beneficial to the European Union concerning the development and utilization of clean energies, which includes energy efficiency and renewable energies.

[English]

Mr. Jos Delbeke: We have an action plan on energy efficiency, which was adopted not more than six or eight weeks ago. It puts a tremendous emphasis on the use of energy-efficient appliances, buildings, and cars. This is where we are going to act. We just discussed the car issue. It's a very important one that is now coming forward in terms of concrete legislation.

On renewable energy, it is expected that at the meeting on March 7 and 8, the heads of state are going to decide on a binding target to use 20% of the primary energy sources of Europe by 2020. So renewable energy is going to get a boost. That is going to be very compatible with what other major trading partners are doing. Of course we follow very closely what happens in Canada, the United States, and Japan. But the use of renewable energy is going to be stepped up by a factor of two to three between now and 2020. That is going to be a very important one.

On carbon capture and storage, the jury is still out. There is a lot of effort in the field of research and development, but our experiences in deploying this technology, I would say, are not yet completely at a point where we can put carbon capture and storage in legislation. In targeting, I would say it is energy efficiency first, and renewable energy second.

• (1030)

[Translation]

Hon. Christian Paradis: In Canada, we are concerned that the worst kinds of waste in terms of energy are caused not only by energy use, but also by non utilized devices. I am referring to devices that are put into what is called the standby mode.

In Canada, 5.2 TWh a year are used by devices that are in standby mode. That is why the government intends to regulate a one-watt standard.

Is this taken into account in the European Union? Do you also intend to act in this regard?

[English]

Mr. Jos Delbeke: Yes, this is very heavily debated these days in the EU, as well. It was on the table of the heads of state of the G-8 countries. Commissioner Pielbigs, who is responsible for energy, would like to have a worldwide agreement to have more energy efficiency and more demanding energy efficiency standards imposed across the globe. The standby equipment is very much a part of that initiative.

[Translation]

Hon. Christian Paradis: I have one last question for Mr. Drexhage.

I would like your opinion, Mr. Drexhage, about the fact that the government indeed intends to put into place the regulations that I just referred to, in order to regulate some of these devices for the first time.

What do you think of the Canadian initiative vis-à-vis what is presently being done in the European Union or at the international level? Do you look favourably on this? I would like your opinion in this regard.

[English]

Mr. John Drexhage: I think it's one part of an overall menu that certainly should be promoted. I like standards in that respect, because they promote energy efficiency. Frankly, I just don't think that in North America we appreciate the extent to which we really are a pariah internationally, when compared to the rest of the world. We're ten times less energy efficient than countries such as India or China, and four times less energy efficient than countries in the EU. That's where we really, really have to attack this problem.

Our national circumstances were mentioned before, and I entirely agree. We are a cold country and we have many distances. But Norway is a very cold country too. Let's not kid ourselves, it has nothing close to the energy inefficiencies we do.

I would submit in fact that on the large distances, it's not so much the problem between the cities, it's in the cities. It's our whole post-World War II urban development.

These are not easy things, but they're very, very critical if we're going to be effectively addressing this in the future. We cannot continue to have these 905 communities that we have around Toronto. That's just not sustainable.

The Chair: Mr. Holland, for five minutes, please.

Mr. Mark Holland (Ajax—Pickering, Lib.): Thank you, Mr. Chair; and thank you to the witnesses.

I want to start on the voluntary agreements, with a question to you, Mr. Drexhage, just to make sure that your understanding is mine.

As I was aware, there was only one voluntary agreement that Canada had in place, and that was with the automobile sector—which is now being continued, actually. It's going to continue to be voluntary until the year 2010. In fact, we did have under Project Green, for large final emitters, a hard cap that was to come into place in 2008, if I'm not mistaken, with reductions of 45 megatonnes. Am I correct on that?

Mr. John Drexhage: To be absolutely honest, that's an issue of some debate, because on the one hand it was 12% intensity, and on the other hand, it was 45 megatonnes, and it was never clear where the final emphasis was going to land in terms of compliance. That wasn't completely sorted out.

As far as other voluntary agreements are concerned, I think you're right, that the only one that we have in place right now is the one with the auto industry.

Mr. Mark Holland: I'm wondering if I could go to Mr. Delbeke on the issue of renewable sources of energy. You were speaking a bit on that.

Can you talk about, first of all, in percentage terms, where you are today, where the European Union is today in terms of utilizing renewable forms of energy and what your target is—you say you intend to take that up by two or three times, if I heard you correctly

—and what you're doing to incent the production of green power, or renewable power.

•(1035)

Mr. Jos Delbeke: I don't have the precise figures with me, but in terms of the use of primary energy in Europe, it is in the order of magnitude of 6% or 7%, depending on which sector. It is more in electricity. It is less, for example, in other sectors, such as biomass. But the objective is to go with a binding target, by 2020, up to 20%. So it is three times what we have in place today.

The real question that is hotly debated now is to what extent we are going to have incentives in place that are in line with the liberalization of the electricity market that we are currently undergoing in the European Union, because most of the incentive schemes for renewables are very much tied to the different member states. For sure you will know that in Denmark, for example, wind energy has been booming, as it is also in the north of Germany, but the support systems of Denmark and Germany have been particularly generous to the development of the wind energy there.

When we are moving from something covering 6% or 7%, up to 20%, it becomes a major vector in the energy production and in the liberalization of the electricity and energy markets we have today in Europe. So we will see in the coming year or two quite a bit of intensive debate on what kind of specific support systems for renewable energy we are going to have, on top of the carbon market that we have today, because we know that the carbon market—today around 15 euros per tonne of carbon dioxide, up to prices for the 2008 to 2012 period—is a very important stimulus or incentive for the development of renewable energy. The question is, what should we do on top of that? It's clearly not enough.

Some are expecting a price that is higher than the 15 euros we have today. To the extent that the prices are going to be higher, less other support and specific support systems are going to be needed. But that is one of the issues where the commission is going to take more initiatives after the explicit support that we hope we will get from the heads of states and government on March 8 and 9.

Mr. Mark Holland: I know this is probably my last question in terms of what I have time for, so I'm wondering if both the witnesses could talk about their perceptions on the importance and utility of carbon tax as part of a variety of measures that could be utilized to reduce greenhouse gas emissions.

Mr. John Drexhage: Can I let Jos answer that first?

Mr. Jos Delbeke: We have gone almost a decade in Europe on the question of whether carbon taxes can or should, and to what extent they should, be developed. We did not sort it out at the European level. You may know that the European construct has advanced tremendously on many things, except on tax issues. So we had a kind of institutional handicap, so to speak, to raise the carbon tax issue at the European level.

Due to that, most member states do not have carbon taxes but have significant energy taxes on energy products. For example, motor fuels or the heating fuel that you buy have a substantive tax on them. But these are basically energy taxes, not carbon taxes, and that is an important element to have in mind.

Where we are going for carbon taxes is on the use of—

Mr. Mark Holland: Sorry. In your answer, could you perhaps talk about the experience of member states that have utilized carbon tax, and whether or not that has been an effective vehicle for them, relative to other member states?

The Chair: It's going to have to be extremely brief.

Mr. Jos Delbeke: They were effective towards the individual consumer. We saw that when the carbon tax was implemented to industrial activities, there were limitations to the extent that such a tax could be levied.

The Chair: Very briefly, Mr. Drexhage.

Mr. John Drexhage: No, I think in addressing such a question you can't do it in a political or a policy vacuum.

I'm from Edmonton, Alberta, and I know what that phrase represents. Call it anything but a carbon tax and maybe we can talk, but call it a carbon tax and it's just not constructive as far as the overall national dynamics of this country are concerned.

I'll just leave it at that.

•(1040)

The Chair: Mr. Watson for five minutes, please.

Mr. Jeff Watson (Essex, CPC): Thank you, Mr. Chair.

Mr. Drexhage, I want to come back to something you were talking about a little bit earlier and I just want to verify this again. What is the total number of verifiable credits available internationally under the CDM?

Mr. John Drexhage: The total number I don't have handy with me at this point in time, and a lot of that is subject to discussion.

Maybe Jos has those figures. I'm not sure. But they are growing, and growing quickly, that I do know.

Do you have anything, Jos?

Mr. Jos Delbeke: I have no figures with me here, but what I know is that our companies were planning to buy something more than \$4 billion Canadian for CDM credits in the period between now and 2012, if that gives you an order of magnitude. That's the only specific element I have here in front of me. Sorry for that.

Mr. Jeff Watson: You had mentioned 45 projects, currently representing 93 megatonnes of verifiable emissions. Are there more than that, or—

Mr. John Drexhage: Yes, it's an awful lot more than that. And in fact those are only projects with Russia and the Ukraine, dealing mostly with oil and gas-firing, fugitive emissions and that kind of thing.

Mr. Jeff Watson: I want to pick up on something Mr. Jean started on earlier. I'm coming back to the idea of a global carbon market. Of course, with people watching these proceedings here today, would a global carbon market allow transfers of wealth from developed countries with good human rights records to developing or underdeveloped countries with poor human rights records?

Mr. John Drexhage: It's all up to the originator, so there is nothing to stop the Canadian government from designing such a system in such a way that in fact those kinds of things do not occur.

On the other hand, if we're talking about needing to have more global engagement, more commitments by the global community, how do we get them engaged? Let's show them first-hand through things like the clean development mechanism. I don't care whether it's the government doing it or industry doing it, but make those investments overseas in China and India and elsewhere where in fact one can be green and still allow the economy to prosper. It's very important to show that on the ground.

Mr. Jeff Watson: Okay, I hear you with respect to being green, but you haven't addressed the issue of human rights.

Mr. John Drexhage: Again, there's nothing to stop the Canadian government from developing a system that explicitly states whatever conditions it wants under which such trading would take place. So if it in fact is not comfortable having a carbon trading system with a country or a region within a country that has some suspect human rights issues, it has every means at its disposal to make that explicitly clear.

Mr. Jeff Watson: Fair enough.

In discussion around making or not making the Kyoto target, you brought up the concept of buying from the future.

Mr. John Drexhage: Yes.

Mr. Jeff Watson: Let me just review this so I've got it straight in my head. If we go ahead and make investments in certain technologies now and we demonstrate that it's going to lead to a certain amount of verifiable emissions reductions, that would apply in post-2012, or would you say we'd go to them and ask that it apply in the 2008 to 2012?

Mr. John Drexhage: In our negotiations, which are going on right now and are at a very critical part right now, the focus is the commitments that countries are going to be taking on after 2012. Canada, in defining what its commitment should be after 2012, can make some calculations based on investments that it's making now on carbon capture, on clean coal, on east-west, and make calculations that these will result in these kinds of reductions and that it will put us on this kind of emissions path.

Out of that scenario, we will use so many megatonnes, at an interest rate that the Kyoto Protocol obliges, to compensate for the fact that we didn't meet the specific allocation defined under the Kyoto Protocol between 2008 to 2012. That is the mechanism by which Canada could do it.

•(1045)

Mr. Jeff Watson: If we make investments in these technologies, which are presumably low-hanging fruit, to some degree—I mean, they're almost ready to go or pretty close to that—does that leave us in a position, at some point, where the next stage of technological breakthroughs would be costlier than purchasing on an international market?

Mr. John Drexhage: Well, they already are, to a large degree.

Mr. Jeff Watson: So some are probably purchasing on an international market, then?

Mr. John Drexhage: Again, it's the decision of the government, in terms of how much it wants to scope out. If it wants to bring in a definite limit on how much should be purchased internationally, it could do so, saying that such and such a percentage of our reductions could be done through this means or through that means.

On the initial cost from carbon capture and storage—this is not low-hanging fruit, per se, at this point in time—this would still require some very significant initial capital investment, but once that's rolling I would expect that the costs would be significantly decreased, not increased.

The Chair: Thank you very much.

Hon. John Godfrey: We're going to split up—

The Chair: Okay, for five minutes.

Hon. John Godfrey: I think this has been really helpful. The whole point of this exercise was to demonstrate that in fact the things we're being told that won't work in Canada are actually working elsewhere. That is to say that Europe seems to be the furthest along among the industrial nations. It's the largest group of countries that is actively working towards greenhouse gas reduction and using the Kyoto Protocol in an active way, like the clean development mechanism.

I'm asking John Drexhage this question. Does it make sense, given the fact that Europe is the furthest along and the largest group of countries currently involved in this exercise, that we take our lessons there? That is to say that we probably want a cap-and-trade system rather than a carbon tax system because that's where Europe is, and that gives us a market to go to. We probably want to pick up on their experience in terms of the clean development mechanism, as Mr. Delbeke has described it—the working out of the bugs, the problem with the China factory, all the rest of it—because they're the furthest along. So the more our system looks like their system and lines up with that, we have a precedent and we have allies and we're part of a bigger system.

Mr. John Drexhage: Yes. As we found out this morning, there's an awful lot of valuable learning that we can take in from the EU system. For example, as I've repeated on more than a couple of occasions, in developing a regulatory framework begin simply and gently. That's very much a lesson that's being taken on board in the United States.

The other thing I would note is in the development of the regional systems in the United States. Certainly with the regional initiative in New England, which is up and running, and in the development of the California greenhouse gas registry system as well, under Governor Schwarzenegger, they are very active, as Jos already mentioned, in discussions with the EU about the kind of system they're developing and they are very, very keen on making sure there are linkages.

You have the agreement, for example, between Prime Minister Blair and Governor Schwarzenegger, ensuring that in fact there is such a linkage. Clearly we are already beginning to see the beginnings of an international regime on this, as it were. It's important, number one, that we link, but number two, the sooner we get in on this game, the sooner we can make sure our particular sensitivities are sufficiently reflected that there's sufficient flexibility to address that.

The Chair: Mr. McGuinty.

Mr. David McGuinty: Thank you very much, Mr. Chair.

It might be actually important for us to hear from more American witnesses, Mr. Chair, particularly from the Pew Center on Global Climate Change, about some of the trends in Washington. I will just put that to the committee.

Perhaps I could go back to Mr. Delbeke. Mr. Delbeke, there are varying estimates of the size of an international carbon market once up and running. I know Deutsche Bank has been leading, out of Germany, a lot of the analysis. The World Bank has been completing analysis. Some of the numbers I've seen here in Canada show that in 2005 it was an \$11-billion market worldwide. It is growing rapidly. I've also learned just this morning about Canada's move from about 33% of the market in the late-1990s to probably less than 1% today, and there has been a massive shift to Europe and to the London, U. K. markets in particular, in the city, which has become the hub of international emissions trading.

Can you give us a sense of the magnitude of the international market? I'm told by some experts in Canada that a mere domestic market here in Canada is likely to be very small, very illiquid, and largely irrelevant on the international scene. What is your thinking? What does your analysis show? How big a market do you anticipate? I know Deutsche Bank, about four or five years ago, estimated that a fully fledged international emissions trading system under Kyoto would be larger than any stock exchange presently on the face of the planet. How big is this going to get?

• (1050)

Mr. Jos Delbeke: It's very difficult to make a forecast, because we have to make speculations about the magnitude of the emission quantities traded and about the price. What we have been looking at is that for the short history we have, we are now today, in 2006, with the market volume of \$22 billion Canadian. I calculated that according to the latest exchange rate in order to put the order of magnitude forward. Of that, 80% is now located in Europe.

What I see following the national allocation plans that we are currently negotiating with the member states is that the interest in JI and CDM credits is rapidly increasing. The reason for this increase is that we have been coming forward with long-term targets, targets in the perspective of 2020. One of the reasons we would declare ourselves with a unilateral target is motivated by that. It has a double motivation.

First, we want to give to the developing countries the signal that we are serious with them—that if they are setting up these CDM projects, we are not going to let them down after 2012, because it takes some time to develop those credits.

Second, we want to give the signal to those developing the technologies of the future inside Europe that we are not going to let them down either. It's not a question of having the technologies there and no longer supporting them after 2012. That's why we are so committed to a long-term signal, 2020. It's long term, but not too long term, because we have observed when we are trying to discuss figures for 2050 that they may be too long term, and not drive the political action that we need. So we thought 2020 was the right balance, with the right technologies we need and the right signals we need to engage developing countries.

The Chair: Thank you, Mr. Delbeke.

For the final five minutes, Mr. Manning, please.

Mr. Fabian Manning (Avalon, CPC): Thank you, Mr. Chair, and I'd certainly like to welcome our guests.

First of all, to Mr. Delbeke, recent polling here in Canada has placed the environment at the top of the concerns of Canadians. Under that environmental umbrella, two main priorities are air quality and human health. I've seen efforts put forward in the EU—in 2001, the clean air for Europe, the CAFE program, and in 2005, thematic strategies on air pollution—and I wonder if you could tell us how these programs complemented your efforts to reduce GHG emissions in the EU.

Mr. Jos Delbeke: As I indicated, there are lots of co-benefits. When we act in the context of air quality, we have side benefits on greenhouse gas emissions and the other way around. When it comes to sulphur and NOx, in Europe—and I think it's very much your experience as well—on both sides of the ocean, we have made tremendous reductions thanks to the technology that we have been developing.

In terms of NOx concentrations and particulate matter concentrations, in urban areas we are not yet there. We have a problem primarily with transport, and that's the common problem between clean air and climate change. We have lots of progress when it comes to the emissions from big industrial installations, but we are neutralizing that progress with a very rapid increase of the emissions coming from our transportation system. I can give you figures that for industrial installations since 1990, we are reducing our emissions between 10% and 25% in the power sector and the industrial sector, according to which subsector we are talking about, but we are increasing our emissions from transport by 33% over the same period. So transport is what we have to look at for the traditional local air pollutants, but equally so for reduction of greenhouse gas emissions—hence our regulations on cars and on fuel—because it is

private transport, the mobility problems we have in urban centres, that are at the core of the problem on climate change as much as on traditional air quality.

• (1055)

Mr. Fabian Manning: Thank you.

To Mr. Drexhage, in our conversations this morning we talked about voluntary compliance and a higher cap, and you mentioned under the regulatory framework the notion to go forward sensibly, simply, and gently. Can you tell us what you believe would be some of the possible negative outcomes that could come as a result of higher caps?

Mr. John Drexhage: More than anything else, I have a concern that the toothpaste may be a bit out of the tube. Intensity targets have been discussed not only by this government but previous to that, particularly with Alberta and the large final emitters in the west. If we were to have a very strong political discussion now and insist on absolute caps, it would once again detract from taking action. That's where I'm most concerned.

A lot of this stuff is just polemics and debate: no hard cap, soft cap; Kyoto, not Kyoto. To me it's a matter of starting with some kind of program and getting the act going. Theoretically, having absolute caps is probably the simplest way of implementing something like greenhouse gas emissions trading. But because intensity has been part of the political dialogue for the last few years, my concern is that if we bring that back again it will needlessly politicize the situation, particularly vis-à-vis Alberta.

The Chair: We want to thank the witnesses for joining us: Mr. Delbeke and his assistant from Brussels, and Mr. Drexhage.

I have a couple of quick points. Would the committee like us to re-invite Vicki Arroyo to the meeting on February 27, assuming her family situation permits it? Okay.

The Canadian Medical Association and the Ontario Medical Association have both declined to come this afternoon. The CMA will submit a written brief to the committee. The Canadian Cancer Society has also declined, but we still have three. We have the Asthma Society, the Canadian Lung Association, and the Heart and Stroke Foundation. So it should still be a productive meeting this afternoon.

Thank you all.

This meeting is adjourned.

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