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Chair

Mr. Bob Mills

Standing Committee on Environment and Sustainable Development

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● (0920)

[*English*]

The Vice-Chair (Mr. Mario Silva (Davenport, Lib.)): I'd like to begin the meeting. I apologize for any disruption that took place this morning.

I'd like to welcome the witnesses to the committee. I'll begin with Mr. Bertrand, president and chief executive officer of the Montreal Exchange. Welcome to the committee, and welcome to politics.

[*Translation*]

Mr. Luc Bertrand (President and Chief Executive Officer, Montreal Exchange): Thank you. The Montreal Exchange is honoured to have been invited to appear before this committee.

In our opinion, at this stage of the development of the Canadian climate exchange, we need a clear and precise understanding of government regulation. Ideally, this would be a system that included mandatory reduction objectives combined with compliance mechanisms. This is the central theme of our presentation.

In our opinion, this would foster the implementation of a price setting mechanism for emissions trading. It has to be said: Canada has enormous potential. As you know, CO2 emissions are approximately 750 million tonnes a year. It has to be said and repeated often: this is the highest quantity per capita in the world.

The solution advocated by the Montreal Exchange is simply based on the creation of an exchange. It is very important to state over and over again that this solution does not require any financial contribution from the government. What is the Montreal Climate Exchange? Essentially, it is a partnership between the Montreal Exchange and the Chicago Climate Exchange, as was announced on July 12.

[*English*]

The Montreal Exchange is Canada's financial derivatives market. It is the oldest exchange in Canada. Its roots go back to the 1830s. It's important to note that in 1975 the Montreal Exchange became the first market in Canada, and the second in the world, to launch equity options. It launched financial derivatives on futures in 1980. In 1999 we convinced the Toronto Stock Exchange to buy our stock business so that we could specialize in the derivatives market. In 2000 we were the first North American derivatives market to commence the full automatization of our exchange. In 2004 we created the Boston Options Exchange, which is a unique market in U.S. equity options business. Our partners are UBS, JP Morgan, Morgan Stanley, Citigroup, CS First Boston, and the Boston Stock Exchange.

The role of the Montreal Exchange in this market is that we are the technical operators of the exchange. We are the largest shareholder of the Boston Options Exchange. I think it's important for this committee to know that this is the first time the Securities and Exchange Commission has allowed a non-U.S. exchange to be the operator in the U.S. marketplace.

Furthermore, the Montreal Exchange is recognized as a market operator in the United Kingdom by the Financial Services Authority. We are recognized by l'Autorité des marchés financiers in France, and we are recognized as a futures market by the Commodity Futures Trading Commission in the U.S.

The strategy of the exchange the last four or five years has been to focus on the liquidity pools, which are in London, New York, and Chicago. As a result of the strategy, we have experienced a growth of 25% compound annual for the last five years. So far this year our growth is north of 40%.

On a daily basis, we trade some $70 billion worth of notional value on the Montreal Exchange. Our clearing corporation is central to our operations. It is a double-A-rated Standard & Poor's agency and runs a book of notional risk of some $600 billion to $700 billion. This is ongoing.

For its part, the Chicago Climate Exchange is probably better described through its founder, Dr. Richard Sandor. Dr. Sandor is the creator and architect of the financial derivatives business. He designed the first specifications of the T-bill futures contract for the Chicago Board of Trade in the early 1970s.

Dr. Sandor and I have had a long and great relationship over the years. For many individuals, like me, who have made derivatives their career, he is unquestionably a gentleman with extraordinary knowledge and foresight. He launched the Chicago Climate Exchange about six years ago. His first big launch, though, was in 2004 after the United Kingdom and the European Community finalized the terms for an emissions trading scheme. He launched the European Climate Exchange, which is today the largest climate exchange in the world.

The Chicago Climate Exchange runs a voluntary program in the U.S. Many Canadian companies, because they lack a system here in Canada, have already joined this exchange. There is slippage going to the U.S. already. The point is that the Chicago Climate Exchange is an organization with depth of knowledge, intellectual capital, and lots of know-how on how to build and launch exchanges, primarily in the climate area.

With the technical expertise of the Montreal Exchange, our infrastructure, our self-regulatory framework, our experience and knowledge in managing markets, along with the intellectual capital in climate of the Chicago Climate Change, the partnership that we have created is uniquely positioned to build here in Canada a very efficient, professional market, with great transparency in the world of emissions trading. A key factor here is our clearing corporation, the Canadian Derivatives Clearing Corporation, which is 100% owned by the Montreal Exchange. It's the only one in the country. Trading is one thing, but clearing and risk management is truly the underlying value-added service of such an organization.

● (0925)

You may ask, why a climate exchange? There are concrete examples over the last 20 years where trading mechanisms, trading schemes, have proven effective in helping to reduce emissions. The most concrete example is the acid rain reductions that we have seen in the U.S. with the sulphur dioxide program that was put in place by the EPA back in the 1980s. Of course, the carbon dioxide program in Europe is functioning very well. We can see some reductions that are in line with the targets that have been developed. Our view is that there now is sufficient precedent or sufficient substance in the marketplace for Canada to move decisively and use a climate exchange as a policy tool and as a tool also for enterprise to reduce carbon dioxide emissions.

[*Translation*]

Naturally, a climate exchange will ensure that costs are minimized and stakeholder flexibility is maximized, without any injection of public funds. It will also allow firms that invest in technological emission reduction solutions to be in a better position to manage their investments and get the most from the capital expenditures they devote to this activity.

It is clear that a market promotes the creation of incentives. In the case of GHGs, it would help reduce emissions in a cost-effective and permanent manner. However, to reduce GHGs permanently, a major reorganization of investments must take place. We would, of course, have to opt for better performing systems as technology evolves.

Thus, firms must therefore invest in innovation and adopt new technologies. For corporate decision-makers, the issue is not whether or not they should invest; rather, they must decide which technologies they should invest in, to what extent, in what way and how much risk should they take. This is precisely where the market comes into play: it allows decision-makers to obtain the best answers possible to these key questions.

The solution lies in price determination. However, the stock market is the ideal mechanism for price discovery. It is common knowledge that price signals are a very effective mechanism in making key decisions.

Therefore, what are the main characteristics and elements of a market-based solution? First—and this is fundamental—the government must set emission reduction targets. Without these targets and a mandatory framework, the market will simply not exist. Then, we need flexibility. The system must enable emitters the necessary latitude with respect to the manner in which objectives are reached. The emitters are responsible for answering critical investment questions.

Some firms will be able to reduce their emissions quickly since it is less costly for them to do so and they have access to technology, while others will adopt a different approach, buying credits from corporations that have a surplus of them. It is important to mention that the emissions market–

● (0930)

The Vice-Chair (Mr. Mario Silva): I am sorry to interrupt you, Mr. Bertrand. You have one minute left.

Mr. Luc Bertrand: I will simply end here.

[*English*]

So that the market can evolve in a transparent and efficient way, government regulation is needed. We need transparency and we need clarity. Our concern is that if there is not rapid action on this, the market will simply slip to other jurisdictions.

The Vice-Chair (Mr. Mario Silva): Thank you.

Next we have Mr. John Drexhage, director, climate change and energy.

Mr. John Drexhage (Director, Climate Change and Energy, International Institute for Sustainable Development): Thank you, Mr. Chair. Allow me to thank you and the other members of this committee for the opportunity to speak on this issue, the Kyoto Protocol and Canada's position and profile within the international climate change community.

First allow me to directly address the question that is the basis of these current inquiries. Can Canada actually meet its Kyoto commitments, as Bill C-288 requires? Well, yes and no. It all depends on the scope of actions this government would be willing to consider. To clarify what I mean actually requires a bit of a history lesson.

Having had the privilege of being a core negotiator at Kyoto, I would like to share with this committee the dynamics of those talks in 1997. The end game of these negotiations at Kyoto revolved around two critical issues: quantitative emission limitation or reduction targets and the use of flexible market mechanisms as a means of delivering on those targets. Those two very initiatives had been defined and identified through recent successes in other environmental issues in which the United States had played a leading role.

Ozone depletion and acid rain.... Under the Montreal Protocol and its consequent amendments, the identification and acceleration of legally established targets for the reduction of ozone-depleting substances proved to be an enormous success, with developed countries first having demonstrated that these targets could easily be met, and then with other countries eventually coming on board, this despite expert economic projections of economic ruin to communities across the U.S. if its government were to agree to strong reductions.

Secondly, the seminal case of sulphur dioxide emissions or acid rain.... While there are many now who claim authorship on the idea, the notion that pollutants could actually be commoditized and traded to mitigate costs came out of the United States in the late eighties and early nineties and again proved to be a huge economic success, with reductions as much as 10% of the original cost. And again, it was the United States and the climate change negotiations that pushed on both issues.

It was at their insistence at the second conference of the parties in 1998 that countries would need to agree to legally binding targets. It was the umbrella group of countries led by the United States, but strongly supported by Canada, Australia, and New Zealand, that insisted on the inclusion of flexible market mechanisms as a means of reaching those targets.

Far from a made-in-the-EU pact, the protocol and its elaboration in the Marrakesh accord actually reflected North American preferences for a target-based approach using market mechanisms as a means to meet those objectives. In other words, Canada agreeing to minus six was predicated on two variables: the U.S. committing to minus seven and Canada enjoying access to the Kyoto mechanisms as a cost-effective means of reaching those targets.

Since then, of course, we are more than aware that those two parameters have significantly changed. The Bush administration made it clear that it had no intention of joining the Kyoto family, and international credits became a hotly contentious issue within Canada, with some powerful industry interests and environmental groups—in my view, unfortunately—both characterizing such international investments as wealth transfers for no real environmental gain.

The debate constantly revolved around whether minus six could ever be reached with these new realities, with the result that concrete actions to begin reducing our emissions constantly made their way to the back burner of the climate policy debate. And everyone here frankly is culpable. The debate raged not only among political parties, but among provincial and federal governments, among industry and environmental groups, and even among departments within the federal government.

The result: close to ten years after Kyoto and we still don't have a coherent plan. So we return to the central issue of this bill: Could Canada actually reach its target even without such a full plan in place at such a late date? Yes, but it would require robust participation in the international carbon market. Does that mean Canada buying so-called hot air from Russia? In my view, no. There is no reason why Canada could not purchase credits through discrete project-based activities that show real reductions and also help support the export of clean Canadian technologies.

Domestic reductions alone, to which this current government has indicated it is committed, would simply not be in place soon enough to make the kinds of reductions that would be required. Most importantly, in my mind, we should not continue to be transfixed by the question of the target. It is needlessly politicizing the debate about what actually can be done and delaying Canada from taking meaningful actions that are required by us and the rest of the globe. That became abundantly clear during the last two weeks in Nairobi.

● (0935)

While there was no meltdown in the negotiations, and in fact we saw good progress in the elaboration of an adaptation work program for vulnerable developing countries, progress on a post-2012 mitigation regime, one that would also see some form of commitment on the part of major emitting developing countries, proved to be most disappointing. Small wonder, if you look at it from the perspective of China, India, Brazil, or South Africa.

The secretariat for the convention and the protocol reported that only six industrialized countries are actually on track in meeting their reduction commitments. At this point, we can hardly say we are showing leadership in reducing emissions required by OECD countries, both in the convention and the protocol.

At the same time, we need to keep in mind that we live in a very different world from the framework convention of 1992, or even the Kyoto Protocol of 1997. While poverty is still all too prevalent in these major developing countries, there is no doubt that they are also quickly becoming major global economic powerhouses. At the level of industry and other commercial enterprises, they are very much our competitive peers. They are developing quickly, perhaps too quickly for their own environmental and social good.

The question is how much leadership we in the developed world can show in reducing our emissions, without compromising our competitive positions to those growing economies. These are all very interesting issues. The problem is that we can hardly afford to wait before we sort out who should act first.

Allow me to provide two more omens that have recently come to light. The Intergovernmental Panel on Climate Change will soon be reporting, in its fourth assessment report, that as a result of global warming, the oceans' acidification rate is taking place at a much faster pace than originally thought. On the other side of the picture, China's emissions are rising much more rapidly than previously forecast. The International Energy Agency is predicting that China will now be the world's largest greenhouse gas emitter by 2009, a full ten years earlier than it had predicted a few years back.

The situation calls for innovative approaches. One of the most significant events at the conference in Nairobi was the presentation by Sir Nicholas Stern at the second round of the informal dialogue on long-term cooperative action to enhance implementation of the convention. It was significant by what he had to say: that the costs of addressing climate change, which critically must include a robust global carbon market, pale in comparison to the human environmental and economic costs of not taking actions. He also pointed out that deforestation continues to play a massive role in the atmospheric greenhouse gas budget, with close to 20% of our annual emissions being the result of these activities. This is an area that needs to be as much a part of the solution as energy. It was significant by the fact of who was saying it: a pre-eminent economist, formerly the chief economist for the World Bank.

If we are to effectively solve the climate change quandary, the solution lies much beyond the world of environmental negotiators. Most importantly, it lies with the world's financial and investment decision-makers, at all levels, from the community banker in Bangladesh, to the finance policy advisor in Ottawa, to the international broker in London. IISD's late and esteemed senior fellow, Konrad von Moltke, who worked tirelessly in the field of trade, investment, and the environment, would regularly say to me that Kyoto is above all an investment, not an environment treaty. I'm only beginning to appreciate the wisdom of this insight.

That means the scope for addressing climate change lies well beyond the parameters of the framework convention of the Kyoto Protocol. These two instruments are very important vehicles in addressing the climate change threat. We need to appreciate that they represent much more than targets. They establish the international policy architecture for addressing climate change.Talking off line with U.S. and Australian state officials, it is also clear that even if their countries hadn't ratified the treaty, Kyoto definitely operated as a catalyst for those countries to address climate change more seriously than they otherwise would have.

These are significant accomplishments that must be noted and appreciated. That said, we should not fall in the trap of regarding them as the be-all and end-all of addressing climate change. Clearly, they are not. They require the support of a wide range of other international forums and strong national actions.

The recently convened G-8 plus five group, which provides a forum for the G-8 to have discussions on climate change with China, India, South Africa, Brazil, and Mexico outside of the formal framework of the climate change negotiations, is a primary example of what I'm talking about.

Of course, there is also the Asia-Pacific partnership on clean development and climate, which this government has indicated it is interested to join. As a complement to the UN bodies, the APP can be a very positive contribution. Its emphasis on a sector approach, with industry at the table with governments, could provide some useful lessons. We would be very keen to work with the government to ensure that Canada's participation works to broaden and deepen actions that promote development in clean, sustainable directions.

● (0940)

In closing, Mr. Chair, Minister Ambrose in her intervention at Nairobi noted that Kyoto has become a source of division within Canada. Sadly, too often that has been true, but I would argue that the fault for that lies less with the treaty itself and more with the atmosphere of acrimony and recrimination that has existed for quite some time among a range of interest groups within Canada.

The Vice-Chair (Mr. Mario Silva): I don't mean to interrupt you, especially when you're finishing, but I just had word from the interpreters that they're having a really hard time translating because you're speaking too fast. It won't be just for you; it will be for all the witnesses who are here. Perhaps they can just keep at a good pace so that the interpreters are able to translate.

Mr. John Drexhage: My apologies. I have the last sentence here.

The Vice-Chair (Mr. Mario Silva): Read your last sentence very slowly, then.

Mr. John Drexhage: Okay.

Ultimately, successfully addressing this grave and present threat means an evolution in understanding what national interests truly signify: acting responsibly for the sake of the environment and our children. I believe Canadians are ready and impatient to face the challenge. It is time for politicians of all stripes to demonstrate the same resolve in a constructive spirit.

Thank you, Mr. Chair.

The Vice-Chair (Mr. Mario Silva): Thank you very much for your presence here as well, Mr. Drexhage.

Our next witness is from the Canadian Manufacturers and Exporters. We have Jayson Myers, senior vice-president and chief economist. Mr. Myers.

Dr. Jayson Myers (Senior Vice-President and Chief Economist, Canadian Manufacturers and Exporters): Thank you very much, Mr. Chair, and good morning.

Bonjour à tous.

I'm accompanied today by Nancy Coulas, who is our director of national environmental quality policy. Nancy and I have both worked on climate change issues for well over ten years, and it may be a reflection of how long we've worked on this.

Let me say at the beginning how much I agree with John and much of what he has said, and I hope that some of my presentation will support his argument as well.

I'm going to be speaking to my handout.

[*Translation*]

I had planned to show you my presentation today rather than read it to you.

I wish to thank the Clerk for taking care of the translation. Unfortunately, the presentation is not in colour.

[*English*]

I'm sorry for that. I think the English presentation has been circulated, along with the French.

I'd like to speak today about how we could move to an effective greenhouse gas reduction approach in Canada. In our view, there are some key policy objectives that have to underline that approach. The first is that we have to focus on improvements in emission intensity reduction.

Emission intensity is a measure of greenhouse gas emissions per unit of economic activity. It's a snapshot of the state of emissions right now with respect to what we do in the economy. The objective must be to accelerate reductions by increasing technological progress. Only in this way can we make real emission reductions. This has to be a key priority.

The second objective is the development and adoption of new technologies. I'm talking about technologies, I'm not just talking about industrial processes or new sources of energy. I'm talking about the way Canadians use energy. I'm talking about the way we drive, what we drive. I'm talking about the way we dispose of our waste. I'm talking about the way we run our farms. I'm talking about the way we heat our houses. These are the technologies, the industrial processes, and the energy generation technologies that we have in place. They safeguard the international competitiveness of Canadian industry. Addressing these issues brings with it tremendous economic opportunity. How can we take advantage of this and build a centre of excellence in Canadian industry for dealing with these issues?

Manufacturing accounts for a little over 13% of our total greenhouse gas emissions. The energy sector, electricity, and oil and gas account for close to 35% of total emissions. But the main point is that this is not just an industrial issue. This is an issue that affects all Canadians. That's why it's so important—every Canadian has to be involved in environmental improvements. It's an environmental and economic issue. If we're going to respond to it, then it has to be a social issue as well. It's going to change the economic, social, and environmental well-being of all Canadians.

Manufacturing is a capital-intensive and energy-intensive industry. Almost two-thirds, 61%, of emissions come from large final emitters—industries like steel, aluminum, paper, cement, the chemical industry. Those are the industries included in the LFE sector.

I want to point out that manufacturers in Canada have a very enviable track record in reducing greenhouse gas emissions. Between 1990 and 1993, manufacturing emissions fell by 7.4% in spite of a 48% increase in production. That represents a 38% reduction in emission intensity.

About half of the emission reduction in the manufacturing sector came from improvements in energy efficiency. Another 30% came from the replacement of industrial processes, the progress we've made in replacing technology. The other 20% came from fuel switching—switching away from higher carbon-intensive sources of energy to lower carbon-intensive sources.

If you look at the total megatonnes that manufacturers have reduced, this sector is leading the Canadian economy in emission reduction. We've also seen emissions reduced on the part of the forestry sector, the construction sector, and the mining sector, if you exclude oil sands development. These sectors made significant progress in reducing their greenhouse gas emissions between 1990 and 2003.

● (0945)

I've included this table to show you the progress that various sectors have made in reducing their emissions and in reducing their emission intensity as well. What you see here is that for the large final emitter sector, emissions have fallen by 20% in those areas. These are the businesses that are investing in emission reduction over that period of time.

However, in spite of the progress that Canadian manufacturers have been making in reducing emissions, if we're looking at emission intensity alone we're unlikely to be able to meet our Kyoto target. The graph I show here shows the relationship between greenhouse gas emissions and overall economic growth in Canada. What it shows is that emissions grow at about 1% less than total economic activity in the country on a year-over-year basis.

That difference between emissions and economic growth represents the technological progress that we make every year in improving energy efficiency and switching away from fossil fuels. That's the technological progress that we have to continue to make if we're going to either keep on this emission trend line or reduce it.

The green line, the very swift reduction, shows what we would have to achieve in order to meet the Kyoto target through real emission reduction in Canada, and that would represent an increase in technological progress by a factor of eight, or 700%, over the next five years.

Technologically speaking, that is not likely to happen. There are technologies where we can make extremely large reductions in emissions, but they're not going to be brought on within the next five years. We have to identify those technologies. I agree that we have to focus investment in those technologies. It's something that industry has to do, and it's something that public authorities have to focus on as well.

But we're not likely to reach the Kyoto target through real emission reduction alone. If we are going to reach the Kyoto target, we have only one of two other alternatives. One is not a very good one. It would entail a reduction of economic activity by 30% over the next five years, simply drive less and heat our homes less. You could take large sectors of industry out of production.

If you go back to the chart that I showed you before, you could take every vehicle off the road and you could shut down all of manufacturing. You would have probably a lot of very cold people and unemployed people in the country, but you would still not reach the Kyoto target through real emission reduction without taking some very serious economic consequences.

The other alternative is to purchase emission credits at a cost, probably, of about $20 billion over the period of the Kyoto implementation timeframe. But I want to speak about what we can do, actually, to reduce emissions and speed up the rate of technological progress and reduction of emission intensity in Canada.

I agree with John in one very significant respect—that is, that the focus on the Kyoto target has led us not only to bad policy but it's led us to counterproductive policy. I think the LFE system was a very good example of a counterproductive approach here.

There were two basic things wrong with the LFE system. Number one, any progress that manufacturers were making toward actual reduction in greenhouse gas emissions was never counted toward meeting the Kyoto target under the scheme. Number two, if you could buy your way out at $15 a tonne, why would you ever continue to invest? The technological requirements are far more expensive than $15 a tonne for industry, and if nothing was being counted toward achieving the Kyoto target, why would anybody make any further progress to actually reducing greenhouse gas emissions?

In my view, the LFE system was going to be effective simply by passing the cost of buying international emissions onto the shoulders of industry. It really was not going to be an effective way of leading to real emission reduction on the part of industry.

What are the elements, then, of an effective approach to reducing greenhouse gas emissions? I want to conclude by making some suggestions.

First of all, I think we need regulated intensity-reduction targets, but those targets have to be technologically achievable over a period of time and they have to be commercially viable as well. Both Luc and John have made the point that this is an investment issue, even more so than an environmental issue here. If we're going to make progress, the right investment incentives, the right type of structure has to be in place.

● (0950)

Secondly, all Canadians have to be engaged. All levels of government have to be engaged and industry has to be seen as a solution and not the number one problem here, because it's not.

Thirdly, we have to see a complementary fiscal and regulatory structure that is going to encourage investments in new industrial technologies. We are recommending that the government introduce measures like an accelerated CCA for manufacturing, processing, energy technologies. This is as much an issue about replacing existing technologies, existing processes, as it is an issue about investing in new technologies. That's very important. We need a streamlined regulatory process in Canada that makes it easy for companies to invest in these new technologies, and we have to really support that.

I want to acknowledge the efforts of one program in particular, the Canadian industrial program for energy conservation, and the work it's been doing on a voluntary basis with industry to achieve improvements in energy efficiency. This has been extremely important for Canadian manufacturing in reducing overall emissions. We should be aligning the NRC and other types of investment behind similar progress.

What's really important here for manufacturing and for the economy as a whole is investment. As you may see, the rate of progress in reducing emissions and improving energy efficiency has slowed down since 2000, but that's attributable to the fact that our rate of investment has also slowed down. In fact, the value of the capital stock and the value of the technology in place in manufacturing today is 5% less than it was in 2000, so we're lucky that we've seen stabilization here.

This is an investment issue, number one, and this graph, which you may have seen before, shows the relationship—

The Vice-Chair (Mr. Mario Silva): I'm sorry, Mr. Myers, I don't meant to interrupt you. Would you like to let us know what page you are looking at? We have time for one more page.

● (0955)

Dr. Jayson Myers: This is page 12. I have one more page to go.

This graph shows the relationship between capital investment and improvements in reducing energy intensity and reducing emissions. It's very closely tied. If we want to accelerate this process, we have to encourage more investment in new technology and the replacement of existing technology. That's true for industry, but it's also true in the energy sector. It's true for every household. It's true for every Canadian driving a car. This is an issue about how to bring new technology on board.

There are other elements here. A well-defined and efficient market for trading emissions credits is essential. The fact that we have not had a well-defined market in Canada has put us behind the eight ball and the Europeans are way ahead of us here, but this market has to be efficient. It has to be low cost to administer and low cost to take part in. We need close coordination with the provinces. We need significant public investment in transportation infrastructure and waste management and less intensive energy sources, targeted technology solutions incorporated into the public procurement policy. And as John has pointed out, we need a wide engagement on the international scene to transfer best practice to Canada and to accelerate emission intensity reductions around the world.

Let me just wrap this up. In my view, we cannot achieve our Kyoto target through real emission reductions in Canada alone, by the Kyoto timeframe. We need a plan that's focused on accelerating reductions and emission intensity, on accelerating improvements in technological progress. In my view, the debate about the Kyoto target has led to counterproductive policy, and we have to focus on solutions—I couldn't agree more. We have to focus on accelerating technological progress, setting realistic objectives, engaging industry in finding the solutions. Above all, let's move beyond the debate and let's start making these investments to actually get real action here in greenhouse gas reduction.

Thanks very much, Mr. Chair.

The Vice-Chair (Mr. Mario Silva): Thank you very much, Mr. Myers.

Is Nancy Coulas also speaking? No.

The next witness we have is Andrei Marcu, president of International Emissions Trading Association. Andrei.

Mr. Andrei Marcu (President, International Emissions Trading Association): Thank you, Mr. Chairman.

I am Andrei Marcu. I'm the president of the International Emissions Trading Association. It's a not-for-profit business association that is dedicated to ensuring that the objectives of the UN Framework Convention on Climate Change are met through the establishment of effective global systems for trading in greenhouse gas emissions in an economically efficient manner, while maintaining societal equity and environmental integrity.

For those of you who don't know who we are, we are an association of 140 companies from around the world, with a heavy Canadian component. Our second chairman was Bob Page, from TransAlta, and our current chairman is Dan Gagnier, from Alcan. I also happen to be Canadian, and I've spent most of my career not on the trading floors, but in the power industry in Ontario. Our organization is split fifty-fifty: half of it is industrial emitters, and half of it is people who provide services in the carbon-trading market.

I'll give you the example of our board. It includes Holcim, cement; Norsk Hydro and Alcan, aluminum; CVRD, which has just acquired Inco; RWE, the largest power emitter in Germany; Toyota Motor Company; American Electric Power, the largest coal-fired company in the U.S.; Shell and BP; as well as the Chicago Climate Exchange, with Dr. Richard Sandor being on my board. That's just for background.

Recent reports, including the one by Nicholas Stern, show that the long-term cost of climate change would be vastly greater than taking immediate steps to reduce greenhouse gas emissions in order to avoid cost. Immediately taking steps to address climate change is the pro-growth policy in the long term. Effective policy to reduce greenhouse emissions must be based on three essential elements: carbon pricing, technological development, and the removal of barriers to behavioural change. Leaving out any of these elements will significantly increase the cost of action.

To reduce greenhouse gas emissions with the lowest possible social cost, it is fundamentally important to set a price for greenhouse gases. A price signal is inherently more efficient than any command-and-control regulatory approach. Putting an appropriate price on carbon, explicitly through tax or trading or implicitly through regulation, means that people are faced with the environmental cost of their consumption. This will lead individuals and businesses to switch away from high-emission goods and services and to invest in low-carbon alternatives, often at comparatively low substitution costs. Experience within the EU emissions trading system market demonstrates clear correlation between short-term energy demand and the carbon market, with the resulting temporary reduction in demand and induced fuel switching.

Emission trading has demonstrated the ability to deliver effective environmental policy outcomes at a far lower cost than command-and-control or tax-based approaches, simply by allowing a market to set the appropriate price. We have heard repeated references to the sulphur dioxide market in the U.S., which, working for Ontario Hydro, I have followed quite closely for many years.

Environmental markets minimize government intervention, setting the constraints and allowing the market to help with acid allocation. In using a price signal, the overall societal costs of compliance are minimized, allowing for resources to be allocated to our societal priorities.

The development and deployment of a wide range of low-carbon technologies is essential in achieving the deep cuts in emissions that are needed. Carbon pricing gives incentives to invest in new technologies to reduce carbon. Indeed, without it there is little reason to make such investment.

Just as an example, and a very powerful example, one of the key issues that was debated at the recent COP in Nairobi was that of carbon capture and storage, a very promising technology that Canadians, Europeans, and Americans are examining with a great amount of interest. It provides the scope and the future of running power plants and capturing the GHG. But let's be quite frank: without an incentive, there is little reason to invest in this technology. That was recognized by everybody we had discussions with in Nairobi.

● (1000)

Canada will remain an energy exporter for the foreseeable future. Fossil fuels will be a critical part of our economy and of the global economy for at least the next generation. The world cannot make an overnight transition to a non-carbon energy economy.

Given Canada's position, whatever targets the government will choose—long term, short term, meeting Kyoto, not meeting Kyoto—Canadian business must have access to the flexibility of an emission-trading system, coupled with domestic and international offsets. To do otherwise would put them at a disadvantage with global competitors that have access to these instruments, including less costly international offsets. They must be provided with the flexibility to choose “make or buy” options for reductions, protecting economically critical sectors.

Canada has significant opportunities for greenhouse gas sequestration in the agriculture, forestry, and energy sectors that have not yet been exploited. An effective emissions-trading system with strong provision for offsets would result in significant new opportunities throughout rural Canada, producing reductions well below current world market prices.

Canada must move to establish a regulatory greenhouse gas market with sufficient scarcity to allow a functional market to exist. Establishing a GHG market would deliver long-term regulatory certainty while Canadian companies build capacity and capture opportunities in the emerging North American greenhouse gas market. What is important for everybody to realize is that in the United States it is now considered a question of when, not if, a carbon constraint will be introduced at the federal level.

Currently, there is a global GHG market, whose pillars are sovereign demand under the Kyoto protocol and corporate demand under the EU emission-trading scheme and some smaller schemes. To meet this demand, countries can use units assigned under the Kyoto protocol, which they can trade among themselves. Due to the collapse of industrial activity in the 1990s in eastern Europe, a surplus of these units were created. This means of compliance has attracted criticism. It has been called “trading in hot air”.

Canada's government is free to use or not use the international emission-trading mechanism for complying with Kyoto. The form of compliance to be used is a purely political choice. Countries and companies under the EU ETS and the northeast U.S. scheme RGGI can purchase offsets produced in an internationally supervised system, a clean development mechanism, and joint implementation.

These units are produced project by project. They are third-party verified by accredited international verifiers such as DNV and SGS. They are, if anything, too strict in their environmental credentials. Frankly, we have been arguing with the CDM executive board that they seek perfection. It is not that they're loose. They want to be perfect. They want to make sure that every single credit that comes out is perfect.

IETA's concern is to ensure that business is able to use flexible mechanisms for corporate compliance, with GHG reduction policies that preserve competitiveness. However, it must be made clear that project-based reductions or offsets represent a real and permanent reduction in greenhouse gas emissions. Regardless of any targets Canada chooses to meet, it is essential that Canadian businesses have the choice to use these international markets.

Canadian participation in the market would not result in major price disruption, since the growth of supply has been strong. The annual study conducted by IETA and the World Bank indicates transactions of 220 million tonnes of credits at an average price of $12 Canadian per tonne.

While Canadian participation in the market would lead to countervailing upward pressure, a recent internal survey of IETA analysts indicates that the price effect would not likely be more than 10% to 15%. The current offsets available in the CDM pipeline are about 1.2 billion credits. We have to take that with a grain of salt, because there are always project risks. It would probably end up with about 800 million.

Under current scenarios, that would leave about 150 million CERs, after you meet European and Japanese demand. There are many assumptions that can be made to arrive at different numbers. But one thing is sure: over the last three months about $5 billion have been committed to the CDM market, most of it U.S. money coming out of New York and Chicago.

The pipeline will grow, with all the regulatory pains we saw in the CDM. We have been on the receiving end of that. This is a young market, one that still has many uncertainties, but one that's attracting a lot of interest. We will not know all it can deliver until we make demands on it.

● (1005)

IETA would represent a large number of companies, people who are not speaking from a theoretical point of view and who have had their hands dirty by working in the field and on projects, whether in South America or in China or in India. It is quite prepared and ready to work with this committee and the government to help shape the future of the Canadian program.

Thank you very much, Mr. Chair.

The Vice-Chair (Mr. Mario Silva): I am sorry, Mr. Marcu, I should have asked for this clarification at the beginning. You are the president of IETA. Is it IETA Canada or IETA International?

Mr. Andrei Marcu: IETA International.

The Vice-Chair (Mr. Mario Silva): Thank you for that.

The next speaker will be Len Eddy, the president of Agcert Canada.

Mr. Len Eddy (President, Agcert Canada): Good morning.

Thanks for the opportunity to make a presentation to the committee.

I have four points I would like to make. I will honour the ten-minute deadline.

Agcert is now an international business. Our market capitalization is approximately $500 million Canadian. We work all over the world.

Our business is to find capital to make technological improvements, primarily to farms, to agriculture, and commercialize and monetize the carbon assets that come from those technology improvements. The business model was created in Edmonton. The initial capital was found in the U.S. In 2002 and 2003 we signed up almost 2,000 farms in Canada and the U.S. to undertake these changes.

When the U.S. exited Kyoto and policy development stalled in Canada, we were faced with little opportunity other than to go outside of Canada and the U.S. We went to the capital markets, and we were effectively told to get out of Canada and the U.S. and go into Brazil. It was an amazing situation that we couldn't invest where we started the businesses. We were forced into countries with high risk, such as Brazil, Colombia, Venezuela, Indonesia, Malaysia, etc.

Today, I can tell you that we have just completed two projects in Canada. As far as I know, they're probably the first projects ever done in North America. They were done purely for the benefit of carbon emissions, with private money. I'll talk a bit more about that later. We changed the operating practices on two farms in Alberta.

The activity of trying to get capital to invest in Canada is not easy. That's my job. I am a competitor for capital. When we go to the board, I have to argue why you would invest in Canada instead of Brazil or Indonesia.

We have some 2,000 farms in all these countries that have been under contract outside of Canada for some time. We've invested in some 600 projects. Agcert has 88% of all agricultural approvals done in the United Nations today. We're a major player outside of North America.

What do we need to bring more capital into Canada? How do we create arguments so I don't have to stand before the board and try to defend a capital investment program where we don't know how much we'll make, we have some uncertainty in the cost, and there is absolutely no policy platform on which to base our investment decisions? What do we need to go into this next year of capital investment and try to pull more money into the country?

We think there are some 450 projects that can be undertaken in Canada, and about 2,000 in the U.S., if the right policy circumstances are in place. This means a liquid, free market and a policy environment that creates a safe haven for capital. It is not that the capital markets necessarily want to invest in countries where there is high risk; they just can't invest in countries like Canada and the U.S. in this current policy environment.

What do we need to invest? We need a registry, and we need a registry right away. There are registries that exist. The Emissions Marketing Association has a registry. The Chicago Climate Exchange has a registry. The CSA has a registry. The U.K. has a registry. France has a registry. California has a registry. There are lots of registries out there. There is absolutely no reason why we can't adopt, buy, or borrow one of these registries and deploy immediately.

This is an issue with respect to compliance with a treaty, as well. If I recall, the treaty has a compliance requirement that as at January 2007 you must have a registry in place. Canada is at risk of being in non-compliance with the treaty. It is a simple task. It is not complex.

A registry would give us the rules of the game for trading. We'd know what the requirements are for registration of our project types and our methodologies, and we'd know how to get the carbon credits moving through the registry.

We need methodologies. We spent in the order of $1 million to get our first methodology approved through the United Nations—an enormous amount of money, given that it was simply a paperwork activity. That was a critical investment. We suffer the fate of pioneers enduring the learning curve ourselves. That is a friction cost that can't be absorbed going forward. If there are lessons to be learned from what has happened in the CDM world, it's that the methodologies must be designed to maximize change.

● (1010)

Currently what has happened is that they've fallen into what's called the most conservative trap, and that is, they approve methodologies and then they modify methodologies to ensure that the recognition for the project development is minimized and that the identifier is minimized when calculating the offset benefits.

The most conservative trap is entirely a misinterpretation of what it was intended to be at the outset, but I've also seen trends inside of Canada with technical working groups, where they've fallen into the same trap. If the objective is maximizing change, the most conservative methodologies will undermine policy objectives.

A baseline was set for January 2001 to avoid stranding the pioneer projects. For many of the project types, for instance soils, the changes were undertaken some time ago, and to establish a baseline that's later than 2000 you'll end up with project types in pioneer investments that aren't recognized. Just imagine us. We spent on these two farms what would be the equivalent of about two-thirds of what the farmer would have spent—no capital improvements on their farms, strictly on environmental improvements. It was money that would never be found—into the environment. It's money that would go into new farm tractors or improvements in livestock. In absolute value, it's not a huge amount of money, but in relative value, it's well beyond the abilities of a farm to invest. This money is courtesy of the London Stock Exchange, incidentally.

We undertook these improvements in the fall of this year. If you set a baseline that said all projects going forward from 2007–we would end up with a stranded project, and effectively we've lost our money. We've sunk cost. In Canada it turned out to be a bad investment in the first place. The board proved me wrong.

These methodologies can also be provided with adaptive management. There's no intent, and it's almost impossible to say that what the science is today is stable. It is never stable. We've discovered along the way that the science is moving and the methodologies have to be adaptive as well. So periodically these methods can be opened on a five- or ten-year period to allow us to give some certainty to the capital investment as well.

Another way to move forward in domestic emissions is to recognize the existing, improved methodologies. There is committee work that has been ongoing in Canada with these. One, in particular, met in Victoria. They met in Halifax. They met in every city in between for the last 18 to 20 months, and we haven't got an improved methodology, we haven't got a recognized methodology. It's great for the technocrats to learn and understand, but there are existing, improved methodologies where there are huge amounts of investment that are recognized internationally, that can be deployed in short order.

Another urgent request that we make is that there's no price cap in the design and emissions trading. A price cap will limit capital investment. To argue that point, when I go to the board and say, "Why invest in Canada instead of Brazil?", they say, "Well, your upward price opportunity or profit opportunity is limited in Canada if there's a price cap", whereas if we were trading in the free market zone outside of Canada—current pricing in Europe is $20 Canadian—there is no limit on upward profitability and we make money as the market matures.

A price cap is also considered a peg in the market, and the arbitrageurs would take advantage of that peg. On a $15 price cap for somebody who's operating on an international basis, on an international portfolio, the play would become, let's buy in Canada, suck up all the Canadian domestic supply, because that price limitation is inherently less volatile than what we would find outside of Canada in international markets. So what you would see is a tendency for market players to buy up supply in Canada, hold Canadian supply, in order to hedge risk outside of Canada.

A price cap will reduce trade liquidity, and that's an example of how liquidity would be replaced or would be reduced.

There's also a redistribution of risk inherently in a price cap, in that what may not be a risk identified for large industry then becomes redistributed to other participants in Canada, other stakeholders in Canada. We're all going to pay for climate change and a price cap simply limits the risk to one group of stakeholders.

There are alternatives to pricing caps: generous and early stage allowances to minimize a short-term price impact to heavy industry, recognizing that heavy industry is dealing with 25- and 30-year capital turnovers, in some cases, and that's always been the argument for why they have to behave differently from anybody else. And it's absolutely true. My former client base was all heavy industry.

● (1015)

You can do it through allowances. Provide for allowances, and periodic reductions on allowances based on emissions intensities going forward over a capital cycle of say 25 years. That allows the capital asset managers, who are in many cases operating billions of dollars of capital investments, to say "I must reduce my intensities on this schedule going forward", and then they can start managing their risk accordingly. Define their risk, and let them manage it.

And let market ingenuity determine the risk. If you provide the schedule, then you can start doing forecasting on what the cost impacts will be, and the market will adjust accordingly.

That's all I have to say. Thank you very much.

The Vice-Chair (Mr. Mario Silva): Thank you very much, Mr. Eddy, for your words.

I think there are no further witnesses before us. We now begin the first round.

Mr. Godfrey, you have the floor.

Hon. John Godfrey (Don Valley West, Lib.): Thank you very much.

Thank you, witnesses. This has been very helpful.

It's a bit ironic, because on Tuesday our session was supposed to be about mechanisms, modelling, and target setting, and a lot of it turned out to be about adaptation. Such is life. It is true that today we're talking about international matters, but in fact you're filling in some gaps from Tuesday.

I want to begin my questioning with John Drexhage, who has a great deal of experience in this field. I want to understand in terms of the Kyoto model, first of all, the balance that was envisaged and is now evolving between domestic action, the so-called made-in-Canada plan, and international activities such as carbon emission trading. How has that idea evolved over time, and why have other nations said they're not going to try to do it all internally? I'm thinking of countries like Holland. What's the idea behind that? And in your view, is that a sound idea?

● (1020)

Mr. John Drexhage: We'd just come off two large successes in the environmental field, particularly on acid rain. Through a very innovative emissions trading program out of the Environmental Protection Agency, costs were less than 10% of what was originally estimated. Secondly, there was the ozone treaty itself. It said that a clear guidance or cap—and this was the lesson from the sulphur dioxide emissions—would provide the appropriate policy environment for assigning value to that carbon. You would be able to put a price on the carbon and find the most cost-effective means of reaching your target.

What we had envisaged in Kyoto was bringing those lessons forward for carbon dioxide. It needs to be appreciated that the lead negotiator for ozone was Eileen Claussen, who under Vice-President Gore had become the lead negotiator in the State Department for carbon dioxide. So these kinds of lessons were much to the fore at that time.

The second thing that needs to be taken into account is that we were all very aware of the issue of capital stock turnover. It takes time. One of the ideas behind the emissions trading mechanisms was that it would be a bit of a bridge. Gordon Lambert, from Suncor, very eloquently explains that it's often sort of a timing mechanism that allows you to make the capital stock turnover while achieving significant emission reductions.

It was intended as a way to send out a signal for some significant targets. That was the only reason the United States and Canada agreed to targets of minus seven and minus six. We sent a signal that we were serious and intended to ramp this target up over time, but that we would meanwhile provide a cost-effective means of defraying these costs on the capital stock side during the transition.

The longer we wait in putting together a strong domestic plan and making reductions, the more we're going to have to rely on the international purchases. I would argue that this has become a bit distorted. I'm not sure if it's 20 billion, as Jay has said, but it's probably 10-billion-plus, in respect of the international credit of some purchases we would have to make to comply with Kyoto. Is that what was envisaged? To be absolutely honest, no. There was a balance there.

You raised a very interesting question about Holland. I'm first-generation Dutch. My parents, God rest their souls, both came from Holland. One thing I can tell you that the Dutch don't do is throw money away. Right off at Kyoto they made it clear that in achieving their targets, half would be through international investments and half through domestic ones. They realize that in participating in these carbon markets they are sending out a strong investment profile signal. We are looking into a century that will be, one way or another, carbon constrained. They think that this provides them a leading-edge opportunity to take advantage of that market.

Hon. John Godfrey: I want to go back to the bill. In subparagraphs 5.1(a)(ii) and 5.1(a)(iv), we refer to mechanisms. We don't actually say which ones should be used in which fashion. But (ii) says “market based mechanisms such as emissions trading or offsets”, and (iv) says “cooperative measures or agreements with provinces, territories or other governments”, which I would assume to be international governments.

We're behind the eight ball. We mustn't be overly obsessed with the actual 2012 target, but we must continue to try. If you were to offer policy advice to get us back as quickly as possible to the world of the ozone depletion story and the sulphur dioxide story, and you had to bring the plan in tomorrow to give the market signals, what would be the action that would have to be taken tomorrow to get us going on that successful route?

● (1025)

Mr. John Drexhage: What I would say is that in the domestic context, I think we need a strong suite of policy measures and a clear regulatory framework for industry. Secondly would be fiscal measures. I think in that sense what the Quebec government has done with its so-called carbon levy is particularly interesting. It's not so much the half cent or one cent tax that it's putting on gasoline; it's more what it's doing with the revenues after it's collected them. It's recycling them into clean energy and clean energy investments.

I think that's the big lesson. We need to set up a fiscal policy that reflects the new and incoming reality of a carbon-constrained world, and that means very much in fiscal policy. That's where I was trying to make the point as far as investments were concerned.

Then on the international side, I would think there is some scope in making sure we have terms of reference that show environmental credibility and Canadian technological opportunities for export, and that we take advantage of those.

Hon. John Godfrey: Mr. Myers, would you have any problem with the prescription as laid out by John?

Dr. Jayson Myers: I am pretty skeptical with respect to the extent that we can realize real emission reduction here in Canada within the Kyoto timeframe when it comes anywhere close to even beginning to reduce emissions from the current levels.

As I said, the rate at which we would have to invest in new technology and replace technology, which is what we have to be focusing on, goes well beyond the Kyoto timeframe right now. And I agree with John that the longer we wait, the more important buying emissions credits will be.

Certainly, put in place a regulatory framework that encourages improvements in emission intensity. But that's a long-term target, and I don't think we're going to be able to achieve that by 2012. If we are going to be within the Kyoto framework, if it is to meet that target, we really wouldn't have very many options to do that other than to purchase emission credits, and I would think the best way to do that is to make sure we have the most effective investments in international projects that actually lead to emission reduction. I would imagine a very large part of our international aid budget should be then targeted on climate change and emission reduction.

I think those are important.

Frankly, every country can't be buying emission credits from around the world, because that's just saying it's not our responsibility. At some point you have to focus on domestic emission reduction, and we need the type of framework that provides that incentive for making technological progress. It's a long-term issue.

● (1030)

Hon. John Godfrey: I'll go back to John Drexhage. I have two questions.

If we got on the case as quickly as we could in terms of the regulatory environment, do you think by the end of 2012 we would begin to see a perceptible, measurable reduction of greenhouse gas emissions and a direction that we would project to the future, that would take us to the right place? In other words, the issue of turnaround time with capital investment is at stake here.

The other question is, what is your reaction to the whole language that Jayson uses quite fulsomely in his document about energy intensity? Do you have a problem with that? Does it need to be modified in some way to make sure we're not postponing something that we could be doing earlier?

Mr. John Drexhage: On the first question, in terms of anything that would be perceptible, let me be as concrete as possible. I think the two most important initiatives that you could do from a capital investment perspective are carbon capture and storage and sending up the signals on that as quickly as possible, particularly Alberta and Saskatchewan; and a clean energy east-west line, getting Churchill Falls, getting Manitoba, getting clean coal out of Saskatchewan and Alberta, and starting an east-west clean energy transmission.

I think if there were some sort of commitment to begin doing that, whether through tax credits or through some program funding, leveraged through industry, provinces, and feds, that would be a significant signal that the international community would respect and we could begin tracking real changes and reductions after 2012.

The intensity question I'm extremely sympathetic to. Canada is not like other OECD countries; in fact, that was the theme of the side event that we sponsored at Nairobi. We share a uniqueness with Norway and Australia in the sense that we are energy exporters, unlike the rest of the membership of the OECD. But too often, energy intensity, as happened so often in this debate, becomes a code word, a code word for really not taking on larger reductions.

I would just note that in the notice of intent from the government, it makes it very clear that for the medium target for 2020 to 2025, the intensity targets that are set now provide a sufficiently clear signal so that a transition to an absolute target is feasible and realistic by 2020. So it needs to send a signal, in any case.

The Vice-Chair (Mr. Mario Silva): Thank you.

I know Mr. Myers wanted to have a few words, but there actually will be a second round.

Mr. Godfrey wants to speak a second time in the second round, so there will be questions.

Mr. Lussier.

[*Translation*]

Mr. Marcel Lussier (Brossard—La Prairie, BQ): Mr. Chairman, I will split my time with my colleague, Mr. Ouellet.

Gentlemen, I thank you for your presentation; it was very interesting. It is not easy to concentrate in the middle of all this noise.

I will first direct my question to Mr. Bertrand.

I would like to know if, in your opinion, the Montreal Exchange has a good chance of being named the official exchange of Canada with respect to climate change.

Could you tell us how this would be an advantage for the Exchange and what factors are in its favour?

Mr. Luc Bertrand: Thank you, Mr. Lussier. I will give you two answers. First, I can tell you that the Montreal Exchange is ready. As soon as a regulatory framework, a registry, quotas, and specific reduction targets are in place and the infrastructure is clearly determined, we will be ready for action. If the government decided to entrust the private sector with the management of the registry, the Montreal Exchange could handle it. We have the necessary mechanism to do so, in co-operation with our partners in Chicago. In strictly practical terms, I might add that, within three to six months, we could provide the Canadian market with the necessary structure to trade greenhouse gases.

We are talking about launching a new exchange, but it should be understood that this is basically an exchange that will be incorporated into the Montreal Exchange's existing infrastructure. This is our area of expertise. We understand the futures market and the options market. We have been working in this area for a very long time and we have the necessary expertise to set up such a system quickly and then manage it. I say this very candidly: we are the only ones in Canada who have the ability to do so.

With regard to knowing whether the Montreal Exchange should be named the official climate exchange, allow me to explain a few subtleties. I do not believe that it is the role of government to designate the exchange in question. I believe that the exchange that is designated should be the one that is the best equipped and has the necessary capacity and infrastructure to provide this exchange space as quickly as possible with the best self-regulating framework possible. Other Canadian exchanges could very well decide to position themselves in this market. It would then be up to the market to decide which one provides the best service offer.

We have signed an agreement with the Toronto Stock Exchange to the effect that we would not compete with each other until 2009, but the fact remains that there is no monopoly in Canada. Every day we compete with giants such as the Chicago Mercantile Exchange, the Chicago Board of Trade, the Chicago Board of Options Exchange and the International Securities Exchange. In terms of competition, we are constantly being bombarded. Competition is at an all-time high.

Nevertheless, I believe it is very important to understand that if the Canadian market is not set up...

● (1035)

[*English*]

Mr. Mark Warawa (Langley, CPC): On a point of order, Mr. Chair, the chair was Mr. Silva, and it's been filled by somebody who—

Mr. Pablo Rodriguez (Honoré-Mercier, Lib.): Yes, he went to the washroom. That happens.

Mr. Mark Warawa: Thank you.

[*Translation*]

Mr. Luc Bertrand: I want to clearly emphasize the fact that if the government does not provide us with the required framework to launch this market, the market will go elsewhere. Actually, it has already begun to do so. Canada's largest emitters are already active on other exchanges. It is understandable: they want an economic value to be tied to the efforts they have made to reduce their emissions. In my opinion, it would be disappointing if Canada failed to take the lead in this area, as the United Kingdom has done. It should position itself in this market and keep it in Canada.

Mr. Marcel Lussier: We have been told that investors would actually like to have the choice of going elsewhere, to other countries.

The implementation of such regulations has an impact on investors. Does it also have an impact on the price of a tonne of carbon?

Mr. Luc Bertrand: Obviously, the regulatory structure can have a serious impact on the ultimate determination of market prices. If Canada wants to be competitive, it will really have to catch up with what is happening in countries that have implemented effective mechanisms, particularly in Europe.

We hope that the regulatory framework will be as close as possible to the modalities that exist in Europe and will eventually be implemented in the United States. The objective here is that there be fungibility between the situation in Canada and that which prevails in other countries. I think we would be doing a disservice to our large corporations and to our Canadian multinationals if we failed to adopt a regulatory structure comparable to what can be found in Europe.

Mr. Marcel Lussier: I will now give the floor to Mr. Ouellet.

Mr. Christian Ouellet (Brome—Missisquoi, BQ): Mr. Bertrand, you know that the development of the oil sands is generating large quantities of greenhouse gases. This is perhaps what we should begin to address.

If, with regard to the oil sands in the West, the government were to set a reduction standard, do you think that the Montreal Exchange could respond quickly enough to fill this market, this need? In other words, could the price help the oil sands industry innovate, as Mr. Myers mentioned earlier?

Mr. Luc Bertrand: Perhaps I can answer your question by saying that there are participants who are very close to the Montreal Exchange. I mention as an example UBS Warburg, a major Swiss corporation, which, as a matter of fact, is the Montreal Exchange's largest shareholder. This corporation has just announced a $3 billion fund in order to contribute to climate exchanges like the one we are trying to launch. We maintain very close ties with these people, as well as with Morgan Stanley. The latter has also just announced a major investment fund. Goldman Sachs, Citigroup, Barclays, all these major investment banks are in the process of implementing services that will make liquidity accessible.

Let me get back to the question of a regulatory framework. The system must be structured according to the standards that are beginning to be applied at the international level. However, if the ceiling is set at $15, it is obvious that this will destroy the market. Actually, I believe that the Montreal Exchange would then have to revisit its strategy.

I am convinced that a truly free market and international standards would attract major foreign capital. Centres such as London, New York and Chicago are already major partners of the Montreal Exchange.

Substantial liquidity will enable the large corporations involved in the development of the oil sands to position themselves and use this product as a risk management tool in the case of capital expenditures they will have to make to reduce their greenhouse gas emissions.

● (1040)

Mr. Christian Ouellet: The way things are evolving, can you give us an idea of the price category we are talking about?

Mr. Luc Bertrand: It is very difficult to determine. We saw what happened in Europe. It is not the role of the head of an exchange to say which direction stock market prices are taking. Actually, we are advised not to comment, for obvious reasons.

However, the market we are suggesting is transparent and effective. In addition, its cost is low. The Montreal Exchange can definitely meet all such criteria. Then, it is up to the market, not to the head of the Exchange, to decide what it wants.

Mr. Christian Ouellet: My second question is for Mr. Myers.

Do you believe that with an exchange like the one we have just discussed the development of the oil sands would fit into the plan that you have presented and which addressed the innovations that would enable the industry to become effective? We know that, as we speak, certain technologies could be used in this area, but that this is not happening because they are too expensive.

[*English*]

Dr. Jayson Myers: I think it's very important. This is one of the ways to send appropriate market signals to investors. Of course, if there are investment opportunities here where there's a return and that can be traded on the market, then yes, I think it's extremely important.

But to reiterate the point that Monsieur Bertrand has made, we need a well-defined market first of all. You don't have a market unless it's defined and regulated. Number two, the extent to which it can be international and efficient is extremely important.

But if you were going to have a perfectly competitive market with zero administrative costs involved—and I would hope we would all try to reduce the administrative cost to participating—the price over a period of time would equal the marginal cost of new technology around the world required to reduce emissions.

So what you would see, first of all, are investments in those opportunities worldwide where investors could see the biggest return for the lowest-cost investment. That would probably be in emission reduction technologies, perhaps in developing countries. But the oil sands industry, any industry in Canada, would have to be competing internationally for that investment.

Much of the technology that would be required in the oil sands or in other industries is considerably higher than $15 a tonne for making those investments. So the oil sands industry or any other industry in Canada would have to compete for that international investment.

But it's a useful mechanism, and clearly, one of the weaknesses of our approach to climate change is that we have not had a very clearly defined registry or a very clearly defined market. Our organization has been involved with Chile, with Brazil, with China in identifying projects where we can transfer manufacturing technology to reduce emissions, and one of the biggest problems is that we don't have a Canadian registry in order to book those initiatives and there's no way of monetizing that here, so the progress that is being made is simply not recognized.

● (1045)

[*Translation*]

Mr. Christian Ouellet: Thank you.

[*English*]

The Vice-Chair (Mr. Mario Silva): Mr. Cullen, you have the next round.

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

Mr. Bertrand, the government has said the companies in Canada are free to participate in the market, that there's no need for any action on behalf of the Canadian government to encourage or establish that market. Is there anything wrong with that statement?

Mr. Luc Bertrand: Allow me to understand your question correctly. You're saying that the Canadian companies are saying they don't need a regulatory framework?

Mr. Nathan Cullen: No.

When asked about Canada's participation in the Montreal market, the minister and others on behalf of the government have replied that there's no role or need for the Canadian government to get involved. It's a market that is free to be participated in by companies that Mr. Myers and others represent.

Mr. Luc Bertrand: That's correct to the extent that we are not at all expecting the government to intervene in the operations of the market and the development of the market. However, we cannot launch a market without the framework. So it depends on where you position your question. But once the government has established the rules, the framework, then let the marketplace do its job. In that respect, the government is right. We do not expect the government to intervene to establish a price cap or to dictate a policy.

Actually, the experience so far is that the greatest clarity at the outset in terms of the regulatory framework we're seeking.... And I think it is good to go to the full extent to exhaustively prepare that aspect, so that once the framework is established, the rules are understood—preferably of an international standard—then the government should just step back and let the marketplace do its job. I think you'll see reductions at a pretty rapid pace.

Mr. Nathan Cullen: Let me understand, first of all, how difficult those rules are to come by. Do we have case examples of what's required for the government to set up? Secondly, how important is it that the government actually has a climate change Kyoto plan—as an example, a large final emitters cap, or hard reductions for companies? Is stimulating your market not critical as well, in terms of the encouragement of your market?

Just to clarify, it is not simply laying down some rules in a document, and then hands off and your market will thrive.

Mr. Luc Bertrand: No. Admittedly, a regulatory framework is in constant movement. There's no doubt that if the framework does not include specific reduction targets, with good penalties.... I think the U.K. program is 40 euros for the first phase and 100 euros for the second phase, per tonne. These are serious numbers if you don't meet your targets. What it has done is to focus large emitters in trying to find novel solutions, or to understand the market and be proactive.

The involvement of the federal government, yes, is to establish those quotas, establish the regime, and make sure there's a verification and an audit process that is of the highest quality. The private sector has all the tools to do that. We have high expertise in this country when it comes to audit functions and making sure that things are done according to the spirit of the regulatory request.

In the Montreal Exchange and the Toronto Stock Exchange and other marketplaces in Canada, we have proven that we can self-regulate our businesses very well.

Mr. Nathan Cullen: On that point you raised about England, speaking with the British delegation in Nairobi and Bonn, the experience of bringing in significant penalties, or the threat of significant penalties, was decried by many. There would be a dramatic loss of jobs; GDP would crash.

What, to your knowledge, has been the experience of the British economy under those strict rules and regimes?

Mr. Luc Bertrand: Maybe Andrei can help me on this one. My understanding is that it has been very favourable.

Mr. Andrei Marcu: There are different schemes. One of them is the U.K. emission trading scheme. This is actually a scheme that was designed by a joint government-business group, the U.K. emission trading group, led by Sir Charles Nicholson from the BP.

That is the precursor to the EU emission trading scheme, which is now in full swing. It really covers all of Europe. The penalty indeed is 40 euros to 2008, and 100 euros to 2012. It is fully recognized that this is a pure regulatory market. It only exists because the government has made a decision that there will be scarcity in GHG emissions.

You cannot have a market without having the credibility of the penalty. Nobody I know has paid penalties in the first year of the emission trading scheme; I can't recall that anybody has done so. Some people may have been a little late in filing papers, but I don't remember anybody being out of compliance.

The record of compliance, both in the sulphur dioxide market and the EU ETS market, is extremely high, much higher than in any other regulatory regime.

● (1050)

Mr. Nathan Cullen: But importantly, the effect of the pretty severe types of regulations and penalties upon the British economy has been seen as favourable now by the business groups. Or is it still vilified?

Mr. Andrei Marcu: Mr. Cullen, I will say the following. The centre of trading in the EU and around the world—and many people don't like to hear this—is in the U.K.

The people who have been the biggest promoters of this have been U.K. businesses. To my knowledge, it is not an issue of whether we have emission trading or nothing. Emissions trading is seen as a better solution than others. If you ask industry whether it would rather have a carbon tax or emission trading scheme, they will flat out answer that they want the emission trading. If you ask them whether they would like this thing to go away, the answer would be yes, they would like this to go away.

Mr. Nathan Cullen: Unfortunately, that might not be one of the options available to us, despite our experience.

Mr. Andrei Marcu: And we recognize that.

Mr. Nathan Cullen: Mr. Myers, how critical do you see the issue of climate change being, reflecting on reports by Mr. Stern and others and the comment Mr. Drexhage made about Kyoto being more predominantly an economic or financial agreement than an environmental one? How critical is this issue, and how critical is it that it's addressed?

Dr. Jayson Myers: It is critical. I would certainly leave it up to the environmental experts to talk about the impact on the environment.

Mr. Nathan Cullen: I mean more the impact on business.

Dr. Jayson Myers: The impact on business too. To the extent that we can direct investment into this technological progress that we're making, that's where the business opportunity comes from, and I think that's where the future growth opportunities are. The key issue that I hope everybody can agree on is how to do that in the most productive way possible moving forward.

On your questions about U.K. industry, I think to the extent that U.K. industry has been able to meet the targets that have been set within the market, the market provides the flexibility. It provides the investment signals for that type of investment. And I think that's exactly the same thing that we have to establish here: what targets are reasonable, achievable, and what sort of mechanism is the best to achieve that.

Mr. Nathan Cullen: There's a constant running debate about whether the Kyoto 2012 target is possible or not, which seems to have delayed action and delayed certainty in terms of those investments. It takes the attention and energy away from what is needed, which is the implementation of the regime that Mr. Bertrand and others have talked about, or the government's coming up with the fiscal measures needed by the companies you represent.

The reason I'm asking this is that I'm looking at the press reports and releases from earlier that talk about a $20 billion or 20% of GDP loss if we were to meet Kyoto targets, and it seems, in a sense—and I am saying this with due respect—a bit irresponsible, because then we dive back into the debate of a yes or no as to whether we achieve 2012, when really the focus must be to at least attempt. I don't know if a sincere attempt has been made yet by the main actors.

Dr. Jayson Myers: The media coverage today was simply on this report. The point I was making was that the only way we are going to achieve a real emission reduction in Canada is to speed up this rate of technological progress. The only other alternatives are to buy emission credits internationally or reduce economic activity. Those are the only two alternatives.

I agree with you totally. Let's focus on what we should be doing to achieve real emission reduction targets. This has not been done effectively. This is not where Environment Canada has been focused. And I totally agree that the focus and all of the debate, discussion, and rancour around the target has led us into not only ignoring real action, but to counterproductive—

● (1055)

Mr. Nathan Cullen: Can a point be made, though, as our signature is now sitting on this document, an international binding treaty, that we should simply, under bills like Bill C-288, say we're going to try, that this is the target that has been set and we must try to achieve this target—otherwise, face penalties, which will cost more?

Disparaging whether the 2012 targets are achievable, or what the cost will be, the effort must be made.

Dr. Jayson Myers: I totally agree, but I thought we were talking about whether the targets were achievable. Clearly, the effort must be made. My argument is let's focus on making that effort.

I do want to raise one issue. This is in response to Mr. Godfrey, but directly to your point as well. We have to be very clear about the extent and the magnitude of this effort that we are trying to undertake. If I could refer you to the chart on page 3 of my outline, right now the biggest areas where we can make progress are the priorities that Mr. Drexhage outlined in terms of focusing attention on carbon sequestration and the development of lower fossil-fuel alternative energy sources and making those key priorities for investment.

Let's be very clear about this. If you were able to sequestrate 20% of the greenhouse gas emissions from the oil and gas sector and if you were able to replace our electricity by 20% and keep manufacturing investing in new technology at a rate of 20% and replace all the cars on the road over the next five years, 20% of those cars, as a nation we would still be over 15% short of the Kyoto target. This is a tremendous undertaking that is not likely to take place within the Kyoto timeframe.

Are we arguing that we should forget it? No, absolutely not, but we should focus on how we can make real progress in the types of technological areas that are necessary to reduce greenhouse gases and to accelerate the emission intensity reductions. But let's be very clear about the magnitude of what we're undertaking.

The Vice-Chair (Mr. Mario Silva): Thank you very much, Mr. Myers.

Before I take the next question I want to thank all of you for your presence here. We'll end the meeting at 11 o'clock.

Mr. Warawa.

Mr. Mark Warawa: Unfortunately, because you refused to take the chair we are running a little bit late, Mr. Chair.

I also thank the witnesses for being here. I wish I had an opportunity to ask you some questions, but because our agenda has one last item, and that was motions, I'm going to move right to that.

The Vice-Chair (Mr. Mario Silva): Sorry, Mr. Warawa, I have to interrupt you.

Mr. Mark Warawa: I move the Standing Committee on Environment and Sustainable Development invite the Honourable Stéphane Dion to appear before the committee by Wednesday, November 29, 2006, as a witness for the discussion of Bill C-288.

Secondly, I move that the Standing Committee on Environment and Sustainable Development invite the Honourable David Anderson to appear before the committee by Wednesday, November 29, 2006, as a witness for the discussion of Bill C-288.

I so move.

The Vice-Chair (Mr. Mario Silva): I was trying to let you know that we will not entertain motions as long as we have speakers, in fact the witnesses, so we can't entertain motions. But because it's 11 o'clock, I'd also like to adjourn the meeting.

The meeting is adjourned.

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