



**STAND UP
FOR CANADA**



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KYOTO!**



**Kyoto Report Card
presented
on the
The First Anniversary of the Kyoto Protocol
entering into force
February 16, 2006**



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Kyoto Report Card

Introduction

The Sierra Club of Canada has committed to reviewing annually Canada's progress in meeting the Kyoto Protocol targets beginning in December 2003, one year after Canada ratified the protocol. The 2005 review was delayed by the federal election and is being presented on February 16th, the first anniversary of the Kyoto Protocol coming into force.

The first phase of the Kyoto Protocol requires 34 industrialized countries and the European Economic Community (EEC) to reduce greenhouse gas emissions by at least 5% below 1990 levels between 2008 and 2012. To date a total of 160 Parties to the Protocol have ratified the treaty.

According to the acting head of the United Nations Framework Convention on Climate Change (UNFCCC), Richard Kinley, as a whole, these countries were "on their way to lower their emission levels by at least 3.5% below 1990 levels during the first commitment period. With the help of additional measures and the use of Kyoto market-based mechanisms, they will as a group be able to reach their agreed Kyoto reduction targets", he added.

The Kyoto Protocol allows countries to develop their own emission reduction plans based on their unique circumstances and to take advantage of flexible mechanisms by investing in projects in other countries. The Clean Development Mechanism, which allows industrialized countries to invest in developing country projects, has already generated over 700 potential initiatives around the world.

A UNFCCC secretariat analysis of reports by industrialized countries, submitted at the beginning of 2006, indicates that many countries have already made significant progress in putting in place policies, and enacting relevant legislative, regulatory and institutional frameworks for achieving their Kyoto commitments.

Action in the EU has already yielded reduction emissions of 1.7% compared to 1990 levels or roughly the equivalent to the annual greenhouse gas emissions of Denmark or Bulgaria. Without these proactive initiatives, emissions would have risen by 20%.

This year's report is divided into four sections:

1. The present political situation and implications for Kyoto;
2. The progress in Canadian Leadership at the Montreal International Climate Conference;
3. The state of the measures contained in Project Green (announced April 2005);
4. Recommendations to the new government.

1. The present political situation and implications for Kyoto.

This is an important juncture for action on climate change in Canada. The new government has made numerous statements about the Kyoto Protocol and Canada's emission reduction plans both in Opposition and during the recent campaign. Since the election however, there have been no further statements.

There is time now for the government to reflect. Two thirds of Canadians voted for parties that support Canada's continued participation in the Kyoto Protocol. There has been significant government and industry investment in programs and technology to meet Canada's target. This investment has been laying the groundwork for creating and deploying new and under-utilized technologies that will lead to more efficient and competitive Canadian industry. Further, there is an estimated \$400 billion world market for emission reduction technologies. Government commitment to the Kyoto Protocol is key to the country's future success.

Canada's Progress to date:

Federal programs to reduce emissions have barely started. Project Green is designed to start delivering in 2008, the first year of the 2008-2012 first commitment period under Kyoto.

Many comparisons have been made between Canada's growth in GHG (increased by 24% above 1990 levels) and growth of GHG in the US (increased by 16% over the same period.). US domestic oil and gas supplies are shrinking while US demand is growing. Emissions from Canadian oil and gas production have risen significantly: 37 megatonnes since 1990, primarily to supply the US. Canada also exports a great deal of hydroelectricity to the US. Without this electricity our neighbour would have had to generate huge amounts of fossil fuel emissions. One could argue that the US is getting a free ride from Canadian electricity, oil and gas. The Chrétien government tried to have this recognized by asking for credit for "clean energy" exports under Kyoto.



There have also been large increases in emissions from Canada's electricity sector: 39 megatonnes since 1990. The provinces control electricity and most actually own the utilities. Transmission lines reflect this fact: power lines are constructed north-south, not east-west. This leads to huge hydro surpluses in some parts of Canada that cannot easily be shipped to other parts of the country. As a result, breakdowns at Ontario's nuclear plants and rapid growth in Alberta's power demand have created huge increases in emissions from coal-fired power plants. It has also complicated negotiations with the provinces.

Working with the Provinces

The provinces have jurisdiction over energy and natural resources. As owners of utilities many provinces are also large polluters. Despite years of federal consultation, no agreement on specific provincial action within Kyoto was reached. The Sierra Club of Canada attended many of these

frustrating meetings and has direct knowledge of the effort expended by the federal government to reach an agreement. The delay caused by this constitutional impasse has put Canada way behind schedule. Ultimately, the federal government developed its own plan with the hope that some provinces would join later. This was beginning to happen when the election was called.

Project Green

The current plan "Project Green" uses the Canadian Environmental Protection Act (CEPA) to control emissions from large industrial polluters starting in 2008, the beginning of the first Kyoto commitment period. The plan also creates a Climate Fund to purchase emission reduction credits. Only credits generated by reducing emissions and that involve Canadian technology or know-how will qualify. This can be viewed as a way to deploy technologies and to make Canada a leader in greenhouse gas reduction technologies. For every Climate Fund dollar spent, at least \$10 would be invested. Energy efficiency entrepreneurs across Canada are eyeing this fund as the means of moving forward rapidly. The third major plank in the federal plan is the Partnership Fund. It is an offer of funding to all the provinces that come forward with emission reductions plans. Prince Edward Island and Newfoundland have already signed a deal.

US action on Climate Change

How does this compare with what the US is doing? The Bush Administration's goal is to reduce greenhouse gas emissions intensity 18% by 2015. Intensity means the amount of emissions in relation to economic output. Emissions continue to grow but more slowly. This goal is not a goal: it is a projection of average improvement in efficiency into the future. It will be achieved even if the government does nothing. Meanwhile, emissions will grow more than 30%.

New International Fora

Some suggest the US-organized Asia Pacific Partnership for Clean Air and Climate should be the model for future international action on Climate Change. This Partnership was announced last August. The US, Australia, China, India, South Korea and Japan are members. Japan joined to keep an eye on this US gambit. The contents of the agreement have been examined and there is nothing in it that did not exist before it was formed. The BBC described the latest meeting as a club to buy and sell coal and uranium. It is a classic example of all talk and no action.

2. The progress in Canadian Leadership at the Montreal International Climate Conference

Canada has participated international climate change negotiations since before the 1992 Rio Conference where the United Nations Framework Convention on Climate Change (UNFCCC) was adopted.

At the Montreal International Climate Conference, November 28 – December 9, 2005, Canada demonstrated real leadership for the first time since former Prime Minister Brian Mulroney initiated global action on climate change.

The objective of the Conference was to win agreement among the nations of the world to begin negotiation of targets and responsibilities for the period after 2012. Canada's goal was to achieve agreements between both the members of the Kyoto Protocol (157 nations) and of the UNFCCC (180 nations).

This required Canada to stand up to the powerful effort by the United States delegation, which had stated early on that it would not support further negotiations.

After an all night negotiation session on the final day and after the US had initially withdrawn from the negotiations, the Conference delivered solid progress. The decisions accepted at COP7 in Marrakesh were adopted, setting out the operational rules for the Kyoto Protocol. The Clean Development Mechanism was strengthened and improved and received substantial additional funding. The Parties to the protocol agreed to launch negotiations toward a second commitment period, with binding emission reductions, to be negotiated and ready to roll immediately following the first commitment period. The Kyoto parties also launched a process to prepare for the negotiations in November 2006 on the role of all countries, industrialized and developing, in the next commitment period. The parties also accepted a new process to consider multi-lateral action on deforestation and increased the focus on adaptation. Within the Framework Convention on Climate Change, the parties, including the U.S. agreed to dialogue on shared actions.

Although the agreement by the members and the parties to begin negotiations may seem vague and unimportant, the Montreal Conference was a significant turning point for international negotiations. It reaffirmed the United Nations multi-lateral process as the primary forum for negotiation and the commitment of the international community to press ahead with emission reduction targets.

The next round of negotiations gets underway next month. The Honourable Rona Ambrose, Canada's new Minister of Environment, will likely assume Mr. Dion's role as President of the Conference. It will be up to her to continue Canada's dynamic leadership.

3. The state of the measures contained in Project Green announced in April 2005

The most recent climate plan was released by the federal government last April and is in various stages of implementation.

Climate Fund

Enabling legislation to establish the Climate Fund was included as part of the 2005 Budget Bill which passed last May. Alan Amey who had been in charge of Climate Change Central, an Alberta government/NGO/private sector partnership program promoting emission reductions and carbon storage projects in the province, was appointed as the head of the Fund. Unfortunately, Environment Canada had not completed a Treasury Board submission to secure its funding for the 2006 fiscal year prior to the election. The Climate Fund's reduction target is 100 Mt.

Large Final Emitters System

Six greenhouse gases were added to Schedule 1 under the Canadian Environmental Protection Act on November 22, 2005, setting the stage for regulation of large final emitters. Draft instructions on the cross-cutting provisions of Large Final Emitters regulation



were published November 28, 2005 with the comment period ending January 12, 2006. Following this public comment period, the plan was that the cross-cutting elements regulation would be published in Canada Gazette Part 1 in early 2006 with sector specific greenhouse gas emission target regulations to follow.

Greenhouse Gases from Canada's largest polluters can be controlled by Canadian Environmental Protection Act

The Canadian Environmental Protection Act requires that once a pollutant is listed in Schedule 1 that a government response (regulation, pollution prevention plan, guidelines or codes of practice) is required within 24 months. A government can take no action only if another jurisdiction or federal agency is taking the action. If the new government opts not to regulate under CEPA, there may be options for moving forward under their proposed Clean Air Act. The LFE system represents a reduction target of 45 Mt.

Renewable Power Production Incentive

This is a one cent/kwh subsidy for non-wind renewable energy technologies that was announced in Budget 2005. Natural Resources Canada engaged in consultations on the design of terms and conditions prior to the election but failed to secure Cabinet approval prior to the election. Planned industry consultations on NRCan's proposed design will now

be delayed until the new minister provides input. Along with the Wind Power Production Incentive this represents a reduction target of 15 Mt.

Automotive Industry Memorandum of Understanding (MOU)

A government/industry committee is monitoring the implementation of this agreement. A University of California analysis indicates that achieving the objective of 5.3 Mt of reductions depends very much on how the government/industry committee implements the agreement. Any acceptance of business as usual reductions undermines the effectiveness of the agreement. In addition, if the government backs away from implementing the large final emitters and offsets system, the argument for implementing the auto agreement could fall away.

Partnership Fund

Budget 2005 allocated \$250 million over five years and discussions with provinces and territories have led to a couple of announcements prior to the election. The new government's commitment to \$22 billion in cuts to grants and contributions by limiting planned growth in government programs (other than for the Department of Defence and Indian and Northern Affairs) to no more than inflation and population growth, may eliminate the planned spending of \$2 - \$3 billion over the next decade in this area. This represents a reduction target of 85 Mt.

One-Tonne Challenge and Programs targeting 45 Mt of reductions.

The \$2 billion in funding to this area was subject to program review in fall 2005 by Treasury Board. Cabinet decisions on reallocation were not made prior to the election. The new government will likely look to this program review as the basis for assessing its early options for reallocation and/or cutbacks. Included in this program package is the newly expanded EnerGuide for Houses program that provided home energy audits and grants to cover costs of retrofits.

4. Recommendations to the new government

a) Setting an example for Canadians

Take the ten tonne challenge: Maybe it could be more, but 24 Sussex is a real “fixer-upper.” The Prime Minister should instruct the National Capital Commission to bring in the Energy Audit team and lead a demonstration project for action to reduce the waste of energy at 24 Sussex Drive. Keep the Energuide for houses and expand it.

b) Regulation

Clean Air Strategy

Move ahead with a Clean Air strategy in which the benefits of reducing pollutants deliver results for cleaner air, less smog, reduced respiratory distress and reduced greenhouse gases.

No Hot Air

Move ahead with a “Made in Canada” plan to meet Kyoto targets. The most recent plan includes elements in keeping with Conservative philosophical tradition. The Conservative criticism of the Climate Fund has always been of any potential to trade in Russian “hot air.” The Harper government can create criteria to exclude such purchases while re-designing the fund to deploy innovative Canadian technology and know how in Canada and abroad.

Car Emissions

The Harper government should adopt regulations in line with a California, New York and several other states requiring a 30% reduction in GHG emissions by 2015 from cars and light trucks in place of the voluntary Memorandum of Understanding with the car makers.

Building and Appliance Codes

Strengthen building codes for residential, commercial and industrial buildings to enhance energy efficiency and secure implementation with the provinces. Further, strengthen appliance and equipment standards and support the deployment with an incentive program.

Large Final Emitters

Regulate GHG under the Canadian Environmental Protection Act and put in place a program that is effective and achieves real reductions.

c) Incentives

Renewable Energy

Rapidly complete the expansion of the Wind Power Production Incentive and the implementation of Renewable Energy Incentive for other forms of renewable energy.

Cellulose Ethanol

Move ahead on cellulose ethanol. The State of the Union Address by President George W. Bush spoke of the need to develop a technology to create ethanol from wood chips and switch grass. Sounds like the US is about to lure away the Canadian technology that already does exactly that. Cellulose ethanol is produced in logen's Ottawa plant. The Conservatives should ensure an operational logen plant moves ahead in Canada's prairies where switch grass is abundant. This would be completely consistent with the Conservative election promise to have a 5% ethanol blend in Canadian gasoline.

Transit Passes

The Harper government should make employer provided transit passes a non taxable benefit to encourage great support for the use of public transit. This proved very successful in the United States. The blanket tax deduction should proceed, only if it does not undercut programmes that actually fund the infrastructure for improved urban mass transit.

Encourage Advanced Technology Cars and Light Trucks

The Harper government should create an incentive program to encourage the purchase of advanced technology vehicles to speed the deployment of the least emitting vehicles and spur competition in the Canadian automotive market.

d) Strategies

Commit to developing national renewable energy strategy targeting at least 15,000 MW by 2015 as part of a process to develop a national sustainable energy strategy (as per the Conservative Party platform commitment).

e) Subsidies

Eliminate subsidies and tax benefits to polluting industries

There is no justification for providing billions of dollars to the oil and gas industry. As noted by Eric Reguly in the Business section of the Globe and Mail (February 7, 2006, "[Call Imperial's bluff on aid for Mackenzie](#)") the lead proponent of MacKenzie Gas pipeline, Imperial Oil, had profits of \$2.6 billion last year, while its parent company, Exxon Mobil had unprecedented profits of \$36 billion. The promised additional \$1.2 billion for the Mackenzie gas pipeline, committed by former Deputy Prime minister Anne MacLellan on the eve of the election, should not be provided. Similarly, on-going favourable tax rates and capital cost allowances to oil and gas development should end. The direct line item subsidy to Atomic Energy of Canada Ltd should also cease.

f) International Leadership

Take International Leadership

The Minister of Environment, the Honourable Rona Ambrose, should accept the continuation of Canada's role as President of the Conference of the Parties of the United Nations Framework Convention on Climate Change. Canada should negotiate toward a long term emission reduction targets consistent with scientific advice that the world must avoid a 2 degrees Celsius global average temperature increase. The CEO Forum's recommendation for long term certainty in targets is sound advice for the Harper government.

Sierra Club of Canada's Kyoto Report Card Grid – February 16, 2006

The Climate Plan	Stage of Implementation:	Number of Mt	Indicators of the New Government's Position:	Opportunities for the New Government
Climate Fund	Alan Amey was hired as the head of the fund, but Environment Canada had not completed a treasury board submission to secure its funding for the 2006 fiscal year prior to the election.	100 Mt	During the campaign, Environment Critic Bob Mills attacked the Climate Fund as "hot air" credits.	-Move ahead with a "made in Canada" plan to meet Kyoto targets. The most recent plan includes elements in keeping with Conservative philosophical tradition. The Conservative criticism of the Climate Fund has always been of any potential to trade in Russian "hot air." The Harper government can create criteria to exclude such purchases while re-designing the fund to support innovative Canadian technology.
Large Final Emitters System	Six greenhouse gases were added to schedule 1 under the Canadian Environmental Protection Act on November 22, 2005 setting the stage for regulation of large final emitters. Draft instructions on cross-cutting provisions for Large Final Emitters regulations was published November 28 with the comment period ending January 12, 2006. Following this comment period the plan was that the cross-cutting elements regulation would be published in Canada Gazette Part 1 in early 2006 with sector specific greenhouse gas emission target regulations to follow.	45 Mt	Alberta is moving ahead on a plan with expectations of federal regulations under CEPA	-Develop effective regulation for GHG emissions under the <u>Canadian Environmental Protection Act</u> which can achieve real reductions. - Move ahead with a Clean Air strategy in which the benefits of reducing pollutants deliver results for cleaner air, less smog, reduced respiratory distress and reduced greenhouse gases.
Renewable Power Production Incentive	Natural Resources Canada engaged in consultation on the design of terms and conditions prior to the election but failed to secure Cabinet approval prior to the election.	15 Mt	Planned industry consultation on NRCan's proposed design will be delayed until the new minister provides input.	-Commit to developing a national renewable energy strategy targeting at least 15,000 MW by 2015. -Commit to fast-track approvals for implementing expanded WPPI -Move ahead on cellulose ethanol. The State of the Union Address by President George W. Bush spoke of the need to develop a technology to create ethanol from wood chips and switch grass. Sounds like the U.S. is about to lure away the Canadian technology that already does exactly that. Cellulose ethanol is produced in Iogen's Ottawa plant. The Conservatives should ensure an operational Iogen plant moves ahead in Canada's prairies where switch grass is abundant. This would be completely consistent with the Conservative election promise to have a 5% ethanol blend in Canadian gasoline.

The Plan	Stage of Implementation:	Number of Mt	Indicators Government's Position:	Opportunities for the New Government
Auto Voluntary Agreement	A government/industry committee is monitoring the implementation of this agreement. A university of California analysis indicates that achieving the objective of 5.3 Mt of reductions depends very much on how the government/industry committee implements the agreement. Any acceptance of business as usual reductions undermines the effectiveness of the agreement.	5.3 Mt	During the 2004 election, the Conservatives favoured regulations, in 2006, their response is less clear.	The Harper government should adopt regulations in line with a California, New York and several other states requiring a 30% reduction in GHG emissions by 2015 from cars and light trucks in place of the voluntary Memorandum of Understanding with the car makers. The Harper government should match the incentive for the purchase of hybrid vehicles currently available in the U.S.
Partnership Fund	Budget 2005 allocated \$250 million over five years and discussion with provinces and territories have lead to a couple of announcements prior to the election.	85Mt	General indications that the Harper government will discuss existing commitments with provinces.	Work with provinces to make the commitment to strengthen building codes, and strengthen equipment and appliance standards to enhance energy conservation.
Programmes	The \$2 billion in funding to this area was subject to programme review in fall 2005 by Treasury Board. Cabinet decisions on reallocation were not made prior to the election. Included in this program package is the newly expanded EnerGuide for Houses program that provided home energy audits and grants to cover costs of retrofits.	45Mt		Take the ten tonne challenge: Maybe it could be more, but 24 Sussex is a real "fixer-upper." The Prime Minister should instruct the National Capital Commission to bring in the Energy Audit team and lead a demonstration project for action to reduce the waste of energy at 24 Sussex Drive. Keep the programme for home-owners and low-income housing.
New Deal For Cities and Communities	Gas tax transfer deals are final with all provinces and territories with the focus on sustainable infrastructure.	Not included in Project Green as delivering results post-2012	The new government has committed to maintaining the current arrangement for the five-year term, but may expand it to cover roads which would mean less emphasis on green infrastructure.	The Harper government should provide a tax deduction for employer provided transit passes. The blanket tax deduction in the Conservative platform should proceed, only if it does not undercut programmes that actually fund the infrastructure for improved urban mass transit.
Subsidies	The former Liberal government pledged to continue subsidies to the oil and gas, and nuclear industry.	Not Applicable	In Opposition, the Conservative and Alliance parties had opposed subsidies.	Keeping in line with the Conservative philosophical tradition, the federal Government should commit to eliminating subsidies to AECL and the fossil fuel industry.
International Negotiations	After hosting the International negotiations on Climate Change, the Canadian Minister of the Environment is to be president of the negotiations under the United Nations Framework Convention on Climate Change for one year.	Not Applicable		The Minister of Environment, the Honourable Rona Ambrose, should accept the continuation of Canada's role as President of the Conference of the Parties of the United Nations Framework Convention on Climate Change and contribute to determining a strong post-2012 target for Canada.
TOTAL	\$ 2.25 billion	293.3 Mt		