CLEAN ENERGY CANADA

December 2016

BACKGROUNDER

Q&A: First Ministers' Meeting on Climate Change and Clean Growth

OVERVIEW

Canada's premiers and the prime minister are meeting this week for a high-profile negotiation on a national climate strategy.

The outcome we're looking for is a credible plan to meet Canada's 2030 emission reduction target. Any effective climate plan for Canada will be one that spurs a transition to clean energy across our economy.

This backgrounder reviews recent developments on climate and clean energy from the lead-up to this meeting and answers some key questions about the negotiations.

How we got here

On December 9, Canada's premiers and the prime minister will meet in Ottawa to negotiate a national approach for clean growth and action to tackle climate change.[1]

This First Ministers' Meeting is the result of an agreement that federal, provincial and territorial leaders reached in March 2016. Known as the Vancouver Declaration,[2] it commits the federal, provincial and territorial governments to "work together to develop a pan-Canadian framework on clean growth and climate change, and implement it by early 2017." The national agreement is intended to become "Canada's plan to achieve our international commitments" on climate change under the 2015 Paris accord.

The Vancouver Declaration kicked off months of work by government officials across Canada. Four working groups—on carbon pricing, other emission reduction opportunities, clean technology, and adaptation—produced assessments of the policy options available to governments in each of those areas.[3]

Over the fall, the federal government has made a number of climate commitments that will influence the outcome of Friday's meeting.

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[1] The announcement of the meeting is available at http://pm.gc.ca/eng/news/2016/11/29/prime-minister-host-first-ministers-meeting-and-meet-national-indigenous-leaders.

[2] The text of the Vancouver Declaration is available at http://www.scics.gc.ca/english/conferences.asp?a=viewdocument&id=2401.

[3] The four working group reports are available at http://www.climatechange.gc.ca/default.asp?Lang=En&n=64778DD5-1.

These commitments include:

- **A national price on carbon**: In October, Prime Minister Trudeau announced[4] that all provinces must charge a price for carbon pollution by 2018, either through a tax or a cap-and-trade system.
- New **performance standards for electricity[5] that will accelerate the phase-out of traditional coal power**, requiring any coal units to achieve an emissions performance "as good as gas" or to shut down by 2030.
- A commitment to adopt a **national clean fuel standard covering all fossil fuels**,[6] with the goal of reducing carbon pollution by 30 million tonnes (Mt) by 2030.

QUESTIONS & ANSWERS

What should the First Ministers' Meeting achieve?

The most essential outcome is **a credible plan to hit Canada's 2030 target.**

That's exactly what leaders agreed to at their March meeting: the Vancouver Declaration says that first ministers will implement "policies in support of meeting or exceeding Canada's 2030 target of a 30 per cent reduction below 2005 levels of emissions."

While this outcome sounds straightforward, it would also be groundbreaking for Canada. It's been a long time since we've had a federal government make a serious effort to hit a climate target. And we've never had a truly "national" plan for climate action, meaning a plan adopted by federal, provincial and territorial governments.

Carbon pricing was the highest-profile policy commitment Ottawa made in advance of this meeting, and it's likely to feature prominently in the discussions between leaders on Friday—even though, as of today, 95 per cent of Canada's population[7] lives in jurisdictions that are pricing carbon or have promised to do so.

Since Prime Minister Justin Trudeau announced a national approach to carbon pricing in October, we've seen governments in Nova Scotia, the Yukon, Manitoba[8] and New Brunswick[9] commit to put a price on carbon—a policy tool that British Columbia, Alberta and Quebec use today, and which

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[4] The text of the prime minister's speech is available at http://pm.gc.ca/eng/news/2016/10/03/prime-minister-trudeau-delivers-speech-pricing-carbon-pollution. A backgrounder describing the parameters of the policy is available at http://news.gc.ca/web/article-en.do?nid=1132129.

[5] The federal announcement on coal is available at http://news.gc.ca/web/article-en.do?mthd=index&crtr.page=1&nid=1157989.

[6] An overview of the policy proposal is available at http://news.gc.ca/web/article-en.do?nid=1160579.

[7] Calculated using Statistics Canada's provincial and territorial population table for 2016 at http://www.statcan.gc.ca/tables-tableaux/sum-som/l01/cst01/demo02a-eng.htm.

[8] A summary of those jurisdictions' approaches to carbon pricing is available at http://www.pembina.org/blog/carbonpricing-novascotia-yukon.

[9] New Brunswick's commitment to a price on carbon is contained in the province's new climate action plan, Transitioning to a Low-Carbon Economy, which is available at http://www2.gnb.ca/content/gnb/en/news/news_release.2016.12.1180.html.

Ontario was in the process of adopting prior to the federal announcement. The conclusion of the meeting should include **a commitment by all governments to implement carbon pricing systems by 2018**—but with Saskatchewan Premier Brad Wall still opposing such measures,[10] the outcome on carbon pricing is far from clear.

To gauge whether the national plan is capable of hitting Canada's 2030 target, Friday's communiqué should include **analysis that adds up the reductions that governments expect from the policies adopted**. If there is a gap that remains, the first ministers will need to announce plans to fill it.

If it's successful, this meeting will mark the end of a political deal-making phase for national climate policy, and the start of an implementation phase. There are crucial details to work out about each of the policies governments have announced in recent weeks. The first ministers should commit to some next steps, including: **timelines for adopting new laws or regulations; an approach to measuring progress, increasing ambition over time and ensuring accountability; and the timing of their next climate meeting.**

Other outcomes from the meeting could include:

- **New climate policy announcements**, made unilaterally by individual governments or as partnerships. For example, the federal government maintains a model (voluntary) building code that it could choose to strengthen so that new buildings waste less energy. Provinces have jurisdiction over building codes, and they could choose to adopt that strengthened federal code as the standard in their jurisdiction.
- An agreement on the **use of the Low Carbon Economy Fund**. The 2016 federal budget included a two-year, $2-billion funding commitment to "support provincial and territorial actions that materially reduce greenhouse gas emissions."[11] The funding is allocated starting in 2017, and the budget text laid out some conditions for its use.

  Provincial and territorial governments will likely want to clarify their respective shares of that funding and discuss the kinds of projects they could spend it on. The outcome of the meeting could include an agreement on the approach the governments will take to spending those dollars.

How far is Canada from meeting its climate target?

The short answer: we're not there yet, but we're getting closer.

A starting point for assessing the gap to Canada's 2030 target is the government's Second Biennial Report to the UN on climate change. That report's projections show a gap of nearly 300 million tonnes (Mt) between where we're headed in 2030 and where we need to be. Specifically, Canada's 2030 target—30 per cent below the level emissions were at in 2005—means we need to reduce

[10] See, for example, http://ckom.com/article/1147276/sask-premier-ready-play-spoiler-first-ministers-meeting-climate-change.

[11] The budget's description of the Low Carbon Economy Fund is available at http://www.budget.gc.ca/2016/docs/plan/ch4-en.html#_Toc446106761. The conditions include supporting activities that are "incremental" to current provincial or territorial plans; achieving "significant" reductions by 2030; and achieving reductions at the lowest possible cost per tonne.

emissions to 524 Mt by 2030, and the federal projections find emissions are headed to 815 Mt instead.[12]

However, the current official **projections only take into account measures implemented or announced by September 2015**—meaning they leave out important provincial policy commitments like Alberta's coal phase-out, Ontario's net-zero building code, Quebec's Zero Emission Vehicle mandate and many more, as well as all climate policies announced by the federal government.

A more up-to-date assessment produced by EnviroEconomics, an environmental modelling consultancy, found that these recent measures have closed the gap significantly. Taking into account climate policy measures up to the federal government's October carbon pricing announcement,[13] the EnviroEconomics team's projections find that new government policies have closed the majority of the gap. Their forecast sees projected 2030 emissions falling to 592 Mt, after accounting for credits acquired under Ontario and Quebec's cap-and-trade systems, leaving 68 Mt more reductions needed to hit the target.

Since that forecast was developed, the federal government has announced three additional policies to cut emissions:

- **The phase-out of "traditional" coal power, which is expected to cut emissions by 5 Mt in 2030.**[14] Subsequent announcements of "equivalency agreements" (agreements where provinces can administer their own policies as long as the environmental outcome is deemed equivalent) with Nova Scotia and Saskatchewan[15] confirm that some coal facilities could continue to operate in Canada after 2030. That said, the agreements will require those provinces to meet the federal performance standards.
- A national clean fuel standard with the objective of reducing emissions by 30 Mt in 2030,[16] and
- A new regulatory proposal to reduce the use and import of hydrofluorocarbons (HFCs),[17] which is projected to cut emissions by 8 Mt by 2030.[18]

All of these initiatives would leave a gap of about 25 Mt, assuming they deliver the tonnes the government says they will. However, policies interact with each other and often overlap, so the reductions that a package of policies will achieve together is less than the sum of its parts.

It's safe to say that federal, provincial and territorial policy commitments are getting us closer to the target, but we're not on track to hit it yet.

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[12] Canada's Second Biennial Report is available at https://www.ec.gc.ca/GES-GHG/default.asp?lang=En&n=02D095CB-1.

[13] *Taking Stock: Canada's GHG progress to 2030 and opportunities for collaborative action* (by Dave Sawyer and Chris Bataille) is available at https://drive.google.com/file/d/0B9FT5KrVwYmwcFdmRmFfSzRyWEk/view?usp=sharing

[14] The government's press release is available at http://news.gc.ca/web/article-en.do?nid=1157989.

[15] Backgrounders outlining the future agreements are available at http://news.gc.ca/web/article-en.do?nid=1158199 and http://news.gc.ca/web/article-en.do?nid=1158199 for Nova Scotia (the announcement also includes a commitment to adopt a cap-and-trade system in Nova Scotia) and at http://news.gc.ca/web/article-en.do?nid=1161269&tp=1 for Saskatchewan.

[16] A backgrounder about the clean fuel standard is available at http://news.gc.ca/web/article-en.do?nid=1160579&tp=930.

[17] A backgrounder about this commitment is available at http://news.gc.ca/web/article-en.do?nid=1161279&tp=930.

[18] Emission estimates for this commitment are available at http://www.gazette.gc.ca/rp-pr/p1/2016/2016-11-26/html/reg1-eng.php.

What else can governments do to meet the target?

So far, Ottawa has announced a fundamental economy-wide policy—a price on carbon—and important complementary policies in some sectors, notably electricity, transportation and oil and gas.[19] The remaining "pieces of the pie" include buildings, industrial production, agriculture, waste and forestry. The governments' working group on emission reduction produced a report that identifies policies to cut carbon pollution in each of these sectors,[20] and governments could commit to adopting some of these new measures to help find the emissions reductions we need to hit Canada's target.

Of course, Canada's governments can also strengthen the policies they've already announced over time: for example, the carbon price could deliver significantly more reductions if it continues to increase after 2022.[21]

Governments can also look outside our borders to find the reductions we need for our target. Under the Paris Agreement, **countries have the option of financing new emission reductions in other countries to help achieve their own targets**.[22]

There are pros and cons to this approach:

- Canada sees more upside—clean innovation, local environmental benefits, job creation at home—from doing as much as possible to achieve the target domestically.
- However, because climate change is a global problem, emission reductions anywhere in the world contribute equally to curbing it. So credible emission reductions purchased outside Canada can help achieve our domestic and global climate goals. Done well, these kinds of partnerships provide resources to countries or communities that need them. International purchases are also likely to cost less per tonne of emissions reduced than new climate policy here at home.

The working group charged with identifying mitigation opportunities includes a discussion of so-called "ITMOs" (internationally transferred mitigation outcomes) and outlines some key considerations for acquiring and using them.[23]

With the most up-to-date analysis still showing a gap to fill to hit our target, the First Ministers' Meeting could well point to international reductions as a tool Canada should consider.

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[19] Along with the United States and Mexico, Canada has committed to reduce methane emissions from the oil and gas sector by 40 to 45 per cent by 2025. This trilateral commitment was reached at the June North American Leaders' Summit in Ottawa: http://pm.gc.ca/eng/news/2016/06/29/leaders-statement-north-american-climate-clean-energy-and-environment-partnership.

[20] See Annex 1 (summary) and Annex 2 (details) of the Specific Mitigation Opportunities Working Group Report, available at http://www.climatechange.gc.ca/Content/6/4/7/64778DD5-E2D9-4930-BE59-D6DB7DB5CBC0/WG_Report_SPECIFIC_MITIGATION_OPPORTUNITIES_EN_V04.pdf.

[21] Analysis from EnviroEconomics and Chris Bataille concluded that the current federal carbon pricing schedule could reduce carbon pollution by 18 Mt in 2030 if the price plateaus in 2022, but could deliver a total of 47 Mt if it continues to grow by $10 a year from 2022 to 2030. Their assessment is available at https://drive.google.com/file/d/0B9FT5KrVwYmwRlFyTWgxT045QlU/view.

[22] See Article 6 of the 2015 Paris Agreement, available at https://unfccc.int/resource/docs/2015/cop21/eng/l09r01.pdf.

[23] See section 6.11 of the Specific Mitigation Opportunities Working Group Report, available at http://www.climatechange.gc.ca/Content/6/4/7/64778DD5-E2D9-4930-BE59-D6DB7DB5CBC0/WG_Report_SPECIFIC_MITIGATION_OPPORTUNITIES_EN_V04.pdf.

What if some provinces don't agree to the plan?

With Saskatchewan Premier Brad Wall threatening to sue the federal government over its carbon pricing policy,[24] Friday's meeting may not end with all premiers and the prime minister happily signing on to a joint communiqué.

Our view? It's much more important to have a credible plan for clean growth in Canada than to have unanimous agreement around the table.

Canadians agree. In a Nanos Research survey conducted in September for Clean Energy Canada,[25] 77 per cent of respondents supported having a plan to hit our national 2030 climate target. More than three-quarters (77 per cent) agreed that their home province has an important responsibility to help Canada hit its target—and 66 per cent agreed that having a plan to meet Canada's target "is more important than having all provincial and territorial premiers agree with the plan."

Canada has a long history of letting the slowest runners set the pace on national climate policy. The Trudeau government's new approach—building a national plan with provinces and territories at the table—opens the door to the opposite result, where Ottawa can help turn front-running provincial policies into national standards.[26]

What happens after the meeting wraps up?

The past few weeks have made it clear that there will be plenty more work to do even after Canada's premiers head home from Ottawa. For example:

- the federal government has committed to a national clean fuel standard capable of cutting emissions by 30 Mt—but all the key details about how to achieve that goal remain to be determined.
- Nova Scotia and Saskatchewan have agreed to negotiate equivalency agreements on phasing out coal; those negotiations have not yet wrapped up.
- Ottawa has committed to deliver billions of infrastructure dollars for clean energy priorities like renewable power projects, electricity interconnections between provinces to make better use of clean power, and smart grids—but the actual projects remain to be determined.[27]

Friday's meeting needs to lay out the next steps: how will Canada's governments implement their climate commitments? How will they monitor and report on progress, so that we can build on

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[24] See, for example, http://www.cbc.ca/news/canada/saskatoon/wall-threatens-legal-action-carbon-tax-1.3876489. Even if the Saskatchewan government does move forward with legal action, legal scholars suggest that the federal government has more than enough constitutional authority to implement a variety of policies to reduce carbon pollution, including putting a price on carbon. See, for example, Nathalie Chalifour's analysis at http://ipolitics.ca/2016/10/04/the-feds-have-every-legal-right-to-set-a-carbon-price/.

[25] A backgrounder summarizing the results is available at http://cleanenergycanada.org/wp-content/uploads/2016/09/Clean-Energy-Canada-Nanos-Climate-Policy-Polling-Report-Oct-2016.pdf.

[26] Our analysis of the emission reductions we could realize by making today's leading provincial policies into national standards is available at http://cleanenergycanada.org/work/building-on-the-best/, and summarized in an op-ed here: http://cleanenergycanada.org/canadas-national-climate-plan-should-start-with-the-familiar/.

[27] Information about the Green Infrastructure Fund categories is available on p. 20 of the federal Fall Economic Statement, available here: http://www.budget.gc.ca/fes-eea/2016/docs/statement-enonce/fes-eea-2016-eng.pdf.

success and increase ambition over time? What mechanisms will keep them working together on clean growth and reducing carbon pollution?[28]

One near-term milestone is already very clear: **the next federal budget needs to invest in implementing the new national climate plan. Provincial and territorial budgets will need to do the same.**

Friday's meeting is an important milestone that can get the right pieces into play. But even if it's a huge success, it's also only the end of the beginning.

THE LONG VIEW

Last month, Canada published its first "mid-century strategy," an analysis of what a very low-carbon future looks like in Canada. It's the closest the federal government has come to setting a specific 2050 target: the document looks at what it would mean to cut Canada's net greenhouse gas emissions to 80 per cent below the 2005 level.

That long-term view is an important complement to the 2030 target that will get most of the attention at Friday's meeting.

Mid-century sounds far away, but as the strategy points out, it's well within the lifespan of many energy infrastructure investments: "Because of the long-lived nature of some energy supply and demand equipment, investments and policy decisions made today will affect the level of greenhouse gases in 2050." And the mid-century strategy foresees very significant growth—a doubling or more—in the clean power sector in Canada.

That's because the key to significant cuts to carbon pollution is a transition from fossil fuels to clean energy across Canada's economy. Over time, we'll need to shift from cars that run on gasoline to electric vehicles fuelled with renewable energy. Clean electricity can heat and cool our buildings and power many industrial processes. And all this means growing demand for clean electricity—something governments should bear in mind when they consider the kind of energy infrastructure they need to build.

Note: Canada's Mid-Century Long-Term Strategy is available at http://unfccc.int/files/focus/long-term_strategies/application/pdf/canadas_mid-century_long-term_strategy.pdf

About Clean Energy Canada

Clean Energy Canada is an independent clean energy and communications think tank based at the Centre for Dialogue at Simon Fraser University. We work to accelerate Canada's transition to a clean and renewable energy system.

Earlier this year, Clean Energy Canada collaborated with other stakeholders and experts to produce a package of policy recommendations to drive Canada's clean energy transition, which we submitted to the consultation process on the pan-Canadian climate plan in June 2016. You can find those recommendations here: http://cleanenergycanada.org/work/canadian-opportunity-tackling-climate-change-switching-clean-power/.

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[28] Prime Minister Trudeau also committed to several trilateral climate policies at the North American Leaders' Summit in Ottawa in June, including a continental clean energy target, regulations on methane emissions for oil and gas operations, and updated fuel efficiency regulations for vehicles. It's not yet clear how those continental commitments will be knit into the pan-Canadian plan. The communiqué from that meeting is available at http://pm.gc.ca/eng/news/2016/06/29/leaders-statement-north-american-climate-clean-energy-and-environment-partnership.