

# Keeping Canada Competitive

A REPORT BY DOUG RUSSELL

**For Canada, like most other industrialized countries, mitigation of climate change poses fundamental public policy challenges for government. Climate change choices made today will help shape how the world's energy needs will be met in the 21st century and will have an impact on world economics and world politics.**

Insight and political will are needed to find the balance between what is politically and economically comfortable now based on today's values, and what will be politically and economically acceptable in the global economy of the future. For Canada to keep pace and remain competitive, a proactive domestic program to address climate change is needed. The strategy must engage all levels of government and the corporate sector in a search to ensure that the global opportunities associated with climate change are exploited while minimizing the adverse effects of potential climate change on Canada.

This paper takes stock of what has been done to date in Canada, evaluates our performance in relation to that of other countries, identifies approaches and initiatives that have been effective elsewhere and examines the potential consequences of not keeping pace with other countries' climate change efforts.

## Canada's commitment

Canada has made a national commitment to stabilize greenhouse gas emissions at 1990 levels by the year 2000. It is a political commitment and is not legally binding under international law. As well, no provincial or sectoral targets have been agreed. Should an agreement adopted in Kyoto specify legally binding targets, it will be the first such legal requirement for Canada to limit its emissions.

**Comparing Canada's  
Climate Change  
Performance  
to other Countries**

## Progress to date

By 1995, Canada's emissions had risen 9.2% from 1990 levels. Information released in October 1997 indicates that preliminary estimates for Canadian CO<sub>2</sub> emissions in 1996 show a rise of about 2% above 1995 levels. In November 1996, Ministers of Energy and Environment admitted that emissions in 2000 will be 8% above 1990 levels. Further, if no additional actions are taken, by 2010 Canada's emissions are projected to be 19% higher than in 1990.

Canada's National Program relies heavily on voluntary measures which, on their own, will clearly not be sufficient to meet our national emissions limitation commitment. Yet numerous studies suggest that there are cost effective measures available to meet Canada's target. In the face of these studies, why has Canada not made a bigger effort to lower its greenhouse gas emissions?

One reason for not taking full advantage of these measures is that they are cost effective across society as a whole, but not always cost effective from the perspective of an individual company or organization. While the realization of economic benefits associated with reduced operating costs in individual businesses is straightforward and self-motivating, going beyond that to capture societal benefits requires political will and government leadership, which to date have been missing in Canada.

Political leaders appear disengaged for two reasons. First, there has been little public pressure to take action to reduce greenhouse gas emissions. Second, there is a strong and well organized opposition to measures that are seen as threatening by some members of Canadian industry, notably fossil fuel interests.

As a result, even though all levels of government will have to act, no one government has demonstrated significant resolve to go beyond primarily voluntary measures. Just as importantly, federal and provincial ministers of environment and energy have never talked seriously about how to fairly allocate responsibility for meeting the national target at a provincial or sectoral level. And, because climate change has taken a back seat to employment and economic restructuring concerns during the 1990s, there have been few, if any, repercussions on Ministers for failing to live up to Canada's internationally stated targets.

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## How does Canada compare?

Six other OECD countries – Germany, United Kingdom, Netherlands, the United States of America, Norway, and Australia – were chosen for comparison to Canada. Some of the factors in picking these countries include: their influence on Canada’s competitiveness, their type of governance, the degree of commitment shown by their national government on climate change, and the approach they have taken to the issue. Efforts were made to choose a balanced sample including both those countries who are making progress and those countries who are having difficulty in meeting their targets.

It should be noted that each country has made its own choices as to which measures are appropriate for their own national economic, social and political circumstances. Measures that make sense and are successful for one country may not work in another. It is noteworthy that no one country has been able to deliver a plan that contains all elements of “the best of the best” measures that in theory are possible.

Table 1 provides some observations about Canada’s performance in comparison with others. The criteria chosen were intended to touch on key aspects of what a proactive climate change response might entail, namely:

- **Political Engagement and Public Awareness:** Is there public support and political will for action on climate change?
- **Accountability Efforts:** Are regions or sectors of the country responsible and held accountable for meeting the national targets?
- **International efforts:** To what extent is the country prepared to take advantage of flexibility provisions such as joint implementation and emissions trading?
- **Mix of Measures:** What is the mix of voluntary, regulatory and market-based measures?
- **Projection for 2000:** What results are being achieved?
- **Kyoto Target Proposal:** What does the country think might be an acceptable commitment post 2000?

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**TABLE 1. COMPARISON OF SELECTED COUNTRIES' RESPONSES TO CLIMATE CHANGE**

	■ Political Engagement & Public Awareness Efforts	■ Accountability Efforts	■ International Efforts	■ Mix of Measures	■ Emissions Projection 1990-2000	■ Kyoto Target Proposal	■ Overall Grade/ Comments
<b>Germany</b>	Numerous efforts in place. Political level engaged at highest level.	Strong federal government; little done to allocate responsibility lower.	Moderate level of initiatives in place; primary focus on JI rather than emissions trading.	Balanced approach including voluntary agreements, subsidy removal, and regulation.	-14%	7.5% reduction from 1990 levels by 2005; 15% reduction by 2010 (EU Proposal).	<b>B</b> Although reunification has played a major role, political will and ability to embrace a variety of measures has led to real reductions.
<b>United Kingdom</b>	Modest level of effort directed at public awareness. Political level engaged at highest level.	Strong national government; few efforts to allocate responsibility to different regions/ sectors.	Next to none because emissions targets being met domestically.	Restructuring of the energy industry has been primary vehicle. Smaller contributions from fuel tax and voluntary programs.	-10%	7.5% reduction from 1990 levels by 2005; 15 % reduction by 2010 (EU Proposal).	<b>B</b> UK made some very tough choices in energy liberalization, but did so mindful of the environmental impacts.
<b>Netherlands</b>	High profile public issue; extensive public awareness campaigns; annual reports to Parliament engages political leaders.	Sectoral targets fully developed and agreed upon with government.	Strong supporters of JI, credible JI program in place.	Voluntary agreements with targets and penalties for non-compliance, taxes and regulations all are being used.	-2%	7.5% reduction from 1990 levels by 2005; 15 % reduction by 2010 (EU Proposal).	<b>C+</b> Netherlands' performance to date (+5.6% by 1995) has not reflected the breadth of measures in place. Groundwork is strong and potential exists for good performance through to 2010.
<b>United States</b>	Public only beginning to get engaged via efforts of White House. President Clinton actively involved.	Accountabilities to be determined by both the Administration and Congress. Recent work on a cap and trade system may help determine sectoral responsibilities.	Well developed international program, including bilateral support to country studies and JI initiatives. Leaders in emissions trading.	Up to now, primary reliance on voluntary actions. Move to a cap and trade system may add incentives for further actions.	+13%	Return to 1990 emissions levels between 2008 and 2012; reduce emissions below 1990 levels in the five year period thereafter.	<b>D</b> US fossil fuel industry preventing progress on emission reductions. Congress will dampen the efforts of the Administration, as evidenced by restricted financial support for the 1993 Clinton plan.
<b>Norway</b>	Limited public education programs; limited political engagement at high levels.	Individual sectors not held accountable.	Leaders in promotion of international approaches such as JI.	Heavy reliance on carbon taxes, but many exemptions given in first application which has lowered results.	+11%	Reduction of 10% for all of Annex I countries, but on a differentiated basis.	<b>D</b> Although tax measures are in place, there is still a large gap to be filled. Need to get at exempt sectors of the economy.
<b>Canada</b>	Few resources dedicated to public awareness. Political level not particularly engaged.	No attempts to allocate responsibility below national level. Little to no accountability.	Supporters of JI and emissions trading. Weak JI program.	Primary reliance on voluntary measures, lack of incentives for early action is hampering performance.	+8.2%	No proposal made yet.	<b>D-</b> No political will evident to deal with the problem. Regional tensions must be addressed.
<b>Australia</b>	Public concerned about economic costs of action. Political level actively engaged in seeking non-binding, differentiated commitments at Kyoto.	No sectoral or state targets have been established.	Interested in JI and emissions trading (with no caps).	Voluntary measures predominant.	+10%	Opposed to a "flat rate" legally binding target. Wants commitments based on national circumstances.	<b>F</b> Australia has decided to concentrate on ensuring its fossil fuel interests are protected. Likely to continue increasing emissions for some time to come.

## The costs of Canada not keeping pace

Should Canada decide to continue with its go slow approach, and either not sign at Kyoto, adopt less assertive targets than other countries, or continue to put little effort into implementation, there will be both short and long term impacts on Canada's competitiveness, international reputation, and future role in climate change negotiations.

### Competitiveness Issues

Despite fears raised by some economic models that Canada would face losses in its fossil fuel sector by taking further action to limit emissions, there are numerous other models which predict gains in other sectors of the economy. Even the most pessimistic outlooks indicate that there would be additional growth in the manufacturing, electricity production and service sectors. This points to the need to view the results of economic models mindful of the engines of growth of the Canadian economy, engines which are changing as we head into the future.

There are competitive advantages in moving proactively on climate change including, among others:

- making Canada more energy efficient;
- reducing other costs – lower greenhouse gas emissions will produce multiple benefits such as reduced air pollution in urban areas;
- developing new technologies and expertise for which there will be a large export market; and
- avoiding stranding new capital in high emission industries in an increasingly efficient world.

Canadian business needs to have a clear policy signal on climate change to make the investments needed to capitalize on opportunities in these areas. If the technologies or the methods are not proven at home, they will be difficult to sell on the international market.

### International Reputation

The message conveyed by Canada at Kyoto will set the tone for how the country is viewed by the international community. Once looked to as a leader in environmental diplomacy, Canada's performance in recent years has brought into question its commitment to follow through on the promises it has made. In the face of polls showing Canadians not wanting to be seen as shirking environmental responsibilities, it appears that Canada is poised to align itself more closely with those countries, such as Australia, who are seeking differential treatment for their emissions limitation commitments. Should this occur, there will likely be more damage done to Canada's already fading environmental image.

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## The way forward: some suggestions for keeping Canada competitive

There are a number of fundamental initiatives that could be undertaken to help Canada remain competitive and capitalize on climate change related opportunities that will present themselves in the coming three or four years:

- 1 Raise public awareness of all aspects of the issue and bring climate change into the Canadian political agenda.
- 2 Sign on to the deal at Kyoto and work towards the establishment of new domestic national emission reduction targets for 2010, 2020, and 2030.
- 3 Develop a clear national plan to achieve the Kyoto target; one that includes performance measurements and reporting milestones to encourage appropriate and timely adjustments.
- 4 Push for new negotiations to begin after Kyoto aimed at strengthening international targets for all countries, not just the industrialized world.
- 5 Negotiate a federal-provincial agreement that defines an equitable share of the burden among regions and various economic sectors, with accountability provisions front and center in the final agreement.
- 6 Make maximum use of market based instruments, including an examination of carbon taxes as part of broader ecological tax reform.
- 7 Eliminate remaining subsidies on fossil fuel exploration activities.
- 8 Make maximum use of the so-called flexibility provisions in the climate change negotiations to gain experience with joint implementation and international emissions trading.
- 9 Strengthen voluntary approaches by including mandatory monitoring, reporting and actions.
- 10 Credit early efforts by companies under the Voluntary Challenge and Registry. These credits should also apply to joint implementation projects.
- 11 Increase efforts on international business development opportunities such as trade missions for environmental protection and sale of Canadian technologies.
- 12 Set a renewable energy target for Canada and tilt the tax playing field to promote investments in energy efficiency and renewable energy.