

# TACTIX COMMENTARY

## *Kyoto Protocol:* **Upcoming Conference of the Parties (“COP 11”) November 28 – December 9, Montreal**

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### INTRODUCTION

The upcoming eleventh meeting of the Conference of the Parties (COP 11) in Montreal next week will have long-term consequences for many Canadian companies – especially those that are identified as large final emitters – if the Liberal Party of Canada wins the general election expected in January 2006. It is the primary objective of ministers Dion and Pettigrew to have the administrative and emissions trading mechanisms approved, thereby moving the Kyoto Protocol from the ratification phase to the implementation phase.

Should the Liberal Party be returned to power, it is expected that the emissions reductions (including specific sector targets and fines for non-compliance) will be added to the Canada Environmental Protection Act very early in the government’s new mandate. As the reality of the Protocol becomes clear, many companies may soon find themselves setting up Emission Trading Offices and being immersed in trading domestic and international emissions reduction credits.

### MINISTER DION’S OBJECTIVES IN HOSTING THE MEETING

COP 11 is being hosted by Canada and is the first meeting of signatories since the Kyoto Protocol came into effect in February of 2005. The Canadian Minister of the Environment, the Honourable Stéphane Dion will chair the conference. The Minister of Foreign Affairs, the Honourable Pierre Pettigrew, will head the Canadian delegation.

Minister Dion has three objectives for the conference:

1. Reach agreement on key decisions to implement the Kyoto Protocol and finalize the unfinished business surrounding initial implementation of the Protocol. The unfinished business requiring decisions arises from “The Marrakech Accords and Marrakech Declaration”;
2. Make improvements to some Kyoto mechanisms (i.e., joint implementation, the clean development mechanism and emissions trading); and,
3. Set an agenda for a future approach that is effective and inclusive (i.e., to include the United States in the next agreement).

Fully engaged in the Climate Change file, Minister Dion has had bilateral meetings with many of the Kyoto Protocol signatory countries. He also hosted a

“Preparatory Meeting of Ministers for Montreal 2005” in Ottawa this past September. The Minister is unconditionally committed to the conference and it is understood that he plans to spend the full 12 days at the conference regardless of there being a federal election campaign underway.

### **OPPOSING POLES: PUBLIC OPINION AND REALITY**

The Government of Canada has taken on a major responsibility and risk in agreeing to host the COP 11 meeting in Montreal. It is expected that 7,000 to 10,000 participants including representatives from 189 countries (100 or more Ministers), 55 inter-governmental organizations (IGOs), 650 non-government organizations (NGOs), 1,000 journalists and observers will attend the 12 day event. It is also expected that 2,000 to 3,000 participants will attend parallel events including “A World of Solutions”.

The government has assumed the risk of putting Canada in the international spotlight on climate change knowing that Canadians support its Climate Change objectives. According to a poll taken by the Centre for Research and Information on Canada that was released the week of November 14, 2005, no less than 78% of Canadians believe that better protection of the environment is a priority, and 88% support Canada’s commitment to implementing the Kyoto Protocol. Support in Quebec for the government’s initiatives is even greater.

There is a distinct mismatch between the public’s perception and the reality of CO<sub>2</sub> emissions in Canada. The Kyoto Protocol established targets for industrialized countries to reduce their greenhouse gas (GHG) targets to an average of 5.2 % below 1990 levels in the period January 1, 2008 to December 31, 2012. Canada committed to a 6% reduction. However, over the 1990 – 2010 period, it is projected that Canada’s emissions will have increased by approximately 25%<sup>1</sup>.

### **REALITY SETS IN WITH IMPLEMENTATION**

If Canada proceeds with implementing the Kyoto Protocol, there will be an international bureaucratic process set up that could provide a system of checks and balances and auditing. The focus will be on verification, certification, monitoring, oversight, surveillance and compliance and possible future punishment for not achieving the targets.

According to the UN agency responsible for Kyoto, the joint implementation, the clean development mechanism, and emissions trading mechanisms are designed to help Annex I Parties<sup>2</sup> cut the cost of meeting their emissions targets by taking advantage of opportunities to reduce their emissions or increase greenhouse gas removals that cost less in other countries than at home.

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<sup>1</sup> Canada’s Emissions Outlook, Annex C: National Energy and Emissions Results.

<sup>2</sup> Thirty-eight countries, including Canada.

For the three mechanisms, the Kyoto Parties will adopt rules that provide the framework to implement the first commitment period, 2008 – 2012. The framework will include the establishment of a system for tracking emissions reductions, and the framework for international emissions trading. Also to be included is a compliance regime to encourage parties to make every effort to meet their obligations.

### **FUTURE DIRECTIONS UNDER A CONSERVATIVE GOVERNMENT**

As Canada heads into a general election campaign it is useful to understand the position of the Conservative Party. Generally, the Conservatives favour *made-in-Canada* solutions to issues such as climate change. They have argued that Canada-oriented solutions will be more effective in addressing the core problems of climate change, compared with multilateral international accords such as the Kyoto Protocol, which they argue to be a flawed public relations exercise. They assert that certain aspects of Kyoto, such as the trading of clean air credits, are shell games which are good for a headline, but which do nothing for the environment. They often point to aggressive made-at-home climate change packages in jurisdictions such as California and Texas as being far more progressive and aggressive in combating GHGs than the Kyoto Protocol itself. In California for example, transit operators must deploy “best available commercial” technology to reduce air pollutants.

Conservatives feel that the clean-up and deterrence of real pollutants on water, air and soil have taken a back-seat to GHGs due to the ‘public relations hype’ surrounding climate change. Their environmental election platform will likely be aggressive on specific pollutants – “NO<sub>x</sub>, VOCs and SO<sub>x</sub>” – in what could be considered a back-to-basics strategy that they feel has fallen by the wayside to the detriment of Canada’s physical environment.

The Conservative policy is likely also to contain incentive-based support for research and development in energy efficiency and in alternative fuels development. This portion of the platform will likely be focused on partnering with the private sector, using carrots, rather than sticks, to enhance innovation.

### **CONCLUSION**

After the election, Canadian companies involved in achieving regulated emissions reductions targets should use every means at their disposal to have the Government of Canada agree to take on the responsibility for the administrative burden attached to the Kyoto Protocol. Once emissions reductions are delivered to and accepted by the Government of Canada (most likely through the Climate Fund Agency), there should be no further requirements for the company.

We would be pleased to respond to questions that our corporate and organization clients may have regarding these anticipated changes to Canada’s *Climate Change Plan*.