

THE Forecast

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Climate Change : Canada at the Crossroads

In recent months a lot has happened to climate change policy in Canada. Climate change has become the number one environmental issue in the country as well as one of the top societal concerns for many Canadians. While the political parties argue over who was greener first, one thing is for sure—the issue will remain at the top of almost everyone's agenda for the foreseeable future, including governments, the scientific community, the business community, and the media.

Even though the climate change landscape is changing quickly, it is worth pausing to take a look at what we know and don't know about climate change in Canada.

What is Certain

Currently the information we know with a high degree of certainty includes:

- The scientific argument over the existence and cause of climate change is over. The 2007 release of the Intergovernmental Panel on Climate Change (IPCC) confirms that humans are the cause of climate change.
- Current and future federal governments will not weaken or reverse their direction on climate change action. Too much has already been said, the public concern is too high and there are too many international pressures, including pressure from the US, to take action.
- The original greenhouse gas reduction targets Canada made in the Kyoto Accord will be very difficult to reach without economic harm. The Federal Government has acknowledged that these targets will not be met in the first Kyoto trading period.
- Strategies for the future will include mitigation and adaptation to climate change. Mitigation measures will not be sufficient and Canadian industry players will also need to develop strategies on how to adapt to climate change.
- All large producers of greenhouse gases will need rock solid emission measurements, calculations and reporting akin to financial accounting. Likewise, all projects undertaken to reduce greenhouse gas emissions or to remove greenhouse gases from the atmosphere will need to be rigorously planned and measured.

What is Not Certain, But Highly Likely

The following are our views on what is not certain but highly likely. Certainty should only increase over the next 12 months.

- The Federal Government has imposed a mandatory reporting scheme for facilities that emit over 100 thousand tonnes. This minimum threshold will likely decrease to encompass more of the industrial emissions.
- The Federal Government will set reduction targets for most industries using a soft cap system, e.g. intensity based targets. These targets will likely be tougher than those previously negotiated. These targets will affect electricity production, oil and gas, mining and manufacturing industries and will likely start in 2010.
- The Federal Government will likely introduce an offset trading system beginning in 2008. This system will be flexible in what accounts for offsets but will tighten up as the system matures.
- The Federal Government will likely not adhere to their \$15/tonne price guarantee for carbon credits.
- Canada will initially focus only on made-in-Canada solutions, rather than looking to purchase international emission credits.
- Much of the funding and tax credits for climate change will focus on technology development. An area of importance will be renewable energy.

- Geological carbon sequestration will be an acceptable way of producing carbon offsets allowing provinces like Alberta and Saskatchewan to offset their emissions from coal-based electricity production and oil sands activities.
- The Federal Government will encourage the Provincial Governments to increase regulation for certain air contaminants alongside the Federal push for climate change regulation.
- Transportation will figure into the Federal strategy to limit greenhouse gas emissions but firm actions for the automotive sector will not occur until 2011 when the current Memorandum of Understanding expires.

What is Not Certain and Not Very Likely (at least in the short term)

- The Federal Government is not likely going to impose a carbon tax. The general consensus is that a carbon tax is not workable, at least politically.
- The first round of national reductions will not likely come quickly and easily. Although the previous Federal Government had initiated a number of programs designed to encourage research and development in new and more energy-efficient technology, there is still a long way to go before they are broadly accepted and can be turned into official offsets.
- Canada will not likely have major offsets in the areas of forestry and agriculture. Current estimates include the forest sector as a net source and the agriculture business is decentralized and difficult to confirm the actions that create an offset. These industries suffer the common problem of permanence issues which are difficult to deal with and hence the offsets tend to be heavily discounted in one way or another.

Trends

- The Federal Government will not likely accept the word of industry or project proponents on reported greenhouse gas emissions and removals. All other international schemes, including voluntary ones, require some form of greenhouse gas verification. We cannot see a functional climate change system without some method of assuring the data integrity.
- The issue of climate change will not likely remain in the environmental departments of large companies. The issues associated with climate change may be material to the financial statements of some companies. This issue has implications for operations in terms of mitigation measures and increasing operations expenses, and heavily affects the strategy and project development side of most companies.

PricewaterhouseCoopers has a Climate Change practice providing services in strategic assessment of climate change risks and opportunities; due diligence for greenhouse gas credits; green technology feasibility assessments; climate change project documentation development for credit application; corporate inventories and greenhouse gas data management systems; and validation and verification of corporate inventories and project emission reductions or removal enhancements. PwC had a key role in developing the ISO 14064 standard on greenhouse gases and the GHG Protocol. Our practice extends to a variety of industries including the electricity, oil and gas, mining, forestry, chemical processing and telecommunications fields at a local, national and international level.

We anticipate more Canadian and international developments related to climate change in the months ahead. Our goal is to provide you with timely synopses and analyses of these developments as they occur.

To subscribe to future issues of *the Forecast*, or to obtain information on PricewaterhouseCoopers' Climate Change Services, please contact:

Calgary

Dr. Christine Schuh 403 509 7517 christine.schuh@ca.pwc.com
(Climate Change Service Leader)

Dr. Mel Wilson 403 509 7338 mel.j.wilson@ca.pwc.com

Montreal

Caroline Emond 514 205 5103 caroline.emond@ca.pwc.com

Janice Noronha 514 205 5693 janice.noronha@ca.pwc.com

Toronto

Mike Harris 416 941 8256 mike.harris@ca.pwc.com

Peter Johnson 416 815 5066 peter.j.johnson@ca.pwc.com

Vancouver

Bruce McIntyre 604 806 7595 bruce.mcintyre@ca.pwc.com

John Webster 604 806 7726 john.webster@ca.pwc.com

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www.pwc.com/ca