

## **MAKING BIG POLLUTERS PAY THEIR FAIR SHARE: How the New Democrats' Cap-and-Trade Plan Works**

New Democrats are proposing a system for setting hard, science-based pollution caps, with all revenues generated re-invested in environmental solutions like public transit, home retrofits, alternative energies and incentives to help regular consumers and small businesses make energy efficient choices.

Our system is based on the Kyoto model that has become the international standard, with a growing consensus by many jurisdictions (European Union, many Canadian provinces, 14 U.S. states, and both U.S. presidential candidates). The system is often referred to as "Cap and Trade". "Cap" because it sets absolute caps on Green House Gases. And "trade" because it creates a market incentive to reduce pollution by allowing clean producers to trade credits in a financial market with polluters who are not reducing as fast.

### **TARGET BIGGEST EMITTERS FIRST**

- Canada's biggest industrial polluters account for more than 50% of our carbon emissions
- Our proposal targets the approximately 375 million tonnes of greenhouse gases emitted by the roughly 700 companies throughout Canada that qualify as "large final emitters" (LFEs).
- These are industrial establishments that emit large quantities of GHGs and operate mainly in the mining, oil and gas and electricity sectors (i.e. coal and gas-fired plants), sectors with average annual emissions per facility of at least 8 kt of CO<sub>2</sub> equivalent.
- This system of capping and trading is already a proven success. Not only is it working now in Europe and elsewhere internationally to reduce pollution, it is the model used to stop acid rain in the 1980's.

### **STRICT, MEANINGFUL CAPS ON POLLUTION**

Currently, after 25 months of this Conservative government Canada has no limits on emitting GHGs and there is no cost to companies for polluting. This, combined with 25 years of prior inaction on the environment, has left Canada with substantially more pollution.

- Make big polluter pay cap-and-trade system puts a market driven price on carbon emissions, with no artificial price limits imposed on the market (except in year one, where we will set a reserve price of \$35 per tonne.)
- We will establish effective annual pollution caps designed to reach our goals that are set by Jack Layton's Climate Change Accountability Act legislating the targets of the Kyoto process.

- We will ensure strict limits on the quantity and quality of emission permits, backed up through a strong enforcement regime.
- We will set strict rules and limits on the use of offsets (the straight purchase of other's reductions)

## **INNOVATION AND INVESTMENT**

- Our cap-and-trade system targets energy intensive industries as the price on carbon will motivate these companies and industries to develop innovative ways to reduce the emissions responsible for global warming.
- This will create new economic opportunities for Canadian businesses, new green collar jobs and new investments in clean, renewable energy.
- By motivating energy-intensive industries to reduce their energy use, our proposal not only puts a price on pollution, it does so in a way that ensures pollution is actually reduced.
- Complimentary environmental policies will help small businesses, governments and individuals to reduce their energy consumption.
- The experience in Europe was that individuals, small businesses, governments and non-energy intensive industries do not respond to a carbon price, and that it was instead complimentary policies (legislative changes and new regulations) that were effective in motivating change.

## **INITIAL SET UP OF CAP-AND-TRADE**

- The experience with the European Union's cap-and-trade program has shown that to maintain an effective price on carbon, governments must not give in to industry pressure to over-allocate permits (issuing companies more permits than are needed) and that these permits must not be distributed for free.
- By setting a pollution cap of 360 MT for large polluters, we project we will reduce emissions by at least 15 MT in the plan's first year, though greater emissions reductions may be achieved.
- We will put an immediate price on industrial pollution through auctioning off 20% of the 360 MT under our pollution cap.
- The number of credits and permits for each industrial sector would be determined by that sector's historic share of GHG emissions. Permits for individual emitters will be distributed through a formula that is based on their production levels each year.
- We are committed to phasing in a full-auction of all carbon credits, increasing the percentage of credits auctioned off each year until our carbon auction eventually includes all of the pollution from the big final emitters.

- During the phase-in, emissions not auctioned will be regulated and controlled through emission permits.

### **INITIAL PRICE**

- The initial year under our cap-and-trade system, would feature the sale of 72 MT of emission credits at an initial price of \$35 per tonne, based on current emission levels.
- This yields \$2.52 billion in revenue to government in year one of our plan, with government revenues rising after that as the market price increases at each year's auction.
- According to a 2005 plan published in the Canada Gazette by Environment Canada, it was then expected to take 18 months to set up a cap-and-trade system, including a carbon exchange. Given that the Montreal Carbon Exchange is now already up and running, we could now set up our cap-and-trade system within a year of forming government.
- Companies initially buy credits at the government auction, and then can trade credits with other companies through a carbon auction.
- Companies that effectively invest in substantial reductions to their GHG emissions can then sell credits to other companies, or avoid the need to purchase future credits, making it a wise business decision for these big polluters to invest in making their companies more energy efficient.

### **INNOVATION FUND**

- We will also establish an Industry Innovation Fund to help businesses make these initial investments. This approach encourages companies to do the most cost-effective reductions first, thereby working in a quick and lowest-cost way towards reducing emissions.

### **PROGRESS EACH AND EVERY YEAR UNDER CAP-AND-TRADE**

- The big polluters covered under our system will see their pollution caps reduced each year - meaning they can only pollute to the limit of their caps, or buy carbon credits either through the initial auction or on the Carbon Exchange Market.
- As our plan progresses, the pollution cap is reduced year after year. The cap will start at approximately 360 MT in year one and be reduced by a larger amount each year.
- In this way, cap-and-trade guarantees total pollution is reduced while providing an economic incentive to business to reduce GHG emissions.
- If companies exceed the amount of pollution they have either permits or credits for, they will face a strict fine, likely amounting to at least twice the price of pollution.

## PHASING IN THE FULL AUCTION

- As the cap-and-trade plan progresses and caps are reduced, the percentage of carbon emissions in the auction is increased annually.
- As both the number of credits auctioned and the price on carbon increases, the revenue generated will also increase.
- This will continue to be true until 2025, when the amount of pollution each year has been reduced so much even with a higher carbon price, government revenue from the auction will start to decline. This will likely occur around 2025.
- In terms of government revenue generated through the carbon auction, our plan starts out yielding \$2.5 billion, likely rising after four years to over \$6 billion.

### NOTE:

*For a cap-and-trade plan to be effective, companies cannot be allowed to access cheap alternatives to reducing their emission such as the \$15/tonne price cap proposed by the Chrétien government or the \$15/tonne Technology Fund proposed by the Harper government.*

*Furthermore, to ensure companies clean up here at home, we would limit the level of offsets companies are allowed to use for compliance purposes to 10 per cent of their required reductions, and international permits would be limited to 10 per cent of total offsets used.*

## REVENUE FROM MAKING BIG POLLUTERS PAY

All figures in millions

	2008 - 09	2009 - 10	2010 - 11	2011 - 12	2012 - 13
PROCEEDS FROM CARBON AUCTION (estimates)	-	2,500	3,600	4,800	6,000
PRICE ON CARBON	-	35	40 (est)	45 (est)	50 (est)

## ENVIRONMENTAL INVESTMENTS

	2008 - 09	2009 - 10	2010 - 11	2011 - 12	2012 - 13
PUBLIC TRANSIT	-	350	500	700	900
INDUSTRY INNOVATION & ENVIRON SECTOR STRATEGIES	-	630	900	1,350	1,900
ALTERNATIVE ENERGIES AND RETROFIT	-	200	400	1,000	1,200
GREEN COLLAR JOBS FUND	-	750	750	750	750
INDIVIDUAL AND SMALL BUSINESS INCENTIVES	-	500	500	500	500
WATER, PARKS AND CONSERVATION	-	70	200	200	300
OTHER MEASURES	-	-	350	300	450
<b>TOTAL:</b>		<b>2,500</b>	<b>3,600</b>	<b>4,800</b>	<b>6,000</b>