

# Environment

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## Regulatory Framework on Air Emissions

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On April 26, 2007, the federal government released its action plan to fight climate change and reduce air pollution named “*Turning the Corner: An Action Plan to Reduce Greenhouse Gases and Air Pollution*”. As part of the action plan, the government has also released a “*Regulatory Framework for Air Emissions*” which establishes the general policy and framework for reducing the intensity of greenhouse gas (GHG) emissions and setting fixed emission caps for other air pollutants. In other words, this action plan defines the future regulation aiming at reducing emissions of GHG and other atmospheric pollutants. As such, it allows the concerned industries to analyse their strategies to comply with this future regulation.

The action plan will be followed, in the spring of 2008, by sector-specific regulations as well as a draft regulation on GHGs. These regulations will then be revised to incorporate provisions for certain air pollutants, other than GHGs, pursuant to normal regulatory procedures. Finally, regulations will be prepared with respect to emissions from the transportation sector as well as energy efficiency standards and indoor air quality.

### **1) INDUSTRIES COVERED BY GHG EMISSIONS INTENSITY TARGETS AND BY AIR POLLUTANT EMISSIONS REDUCTION TARGETS**

The industrial sectors covered by the Regulatory Framework on Air Emissions include:

- Electricity generation produced by combustion,
- Electricity generation based on oil and gas, including upstream oil and gas, downstream petroleum, oil sands and natural gas pipelines,
- Forest products, including pulp and paper and wood products,
- Smelting and refining, including aluminum, alumina and base metal smelting,
- Iron and steel, iron ore pelletizing,
- Potash, cement, lime and chemicals production, including fertilizers.

Ongoing consultations between the federal government and the concerned industrial sectors will specify whether only the operators of facilities emitting a certain amount of carbon dioxide will be required to reduce the intensity of their GHG emissions. Currently, only operators of facilities emitting 100 000 tonnes or more of carbon dioxide equivalent in a calendar year must file a mandatory annual reporting.

## 2) REDUCTION OF GHG EMISSION INTENSITY BY THE ABOVE-MENTIONED INDUSTRIES

The federal action plan is to reduce GHG emission intensity by the above-mentioned industrial sectors, starting in 2010.

### *Targets for 2007-2010*

GHG emission targets for existing facilities will be based on emission intensity,<sup>1</sup> i.e. emission levels are regulated based on the level of production of the facilities in relation to the 2006 base year rather than absolute emission caps. A 6% annual reduction in the GHG emission intensity is expected from 2007 to 2010, representing an initial 18% reduction in 2010. The GHG emission intensity targets will come into force in 2010.

Emissions from pre-defined fixed processes<sup>2</sup> are excluded from the emission intensity improvement target for 2010. Future technological change may affect the determination of whether a particular process continues to be considered fixed. Facilities that start operation in or after 2004 are not subject to GHG emissions intensity improvement target during the first three years of operation. The GHG emissions intensity targets start to apply during the fourth year of activity.

### *Targets for 2010-2020*

Starting in 2010 (the year future regulations concerning GHGs will come into force), a 2% continuous reduction in emissions intensity will be required each year. Based on this, GHG emission reductions are expected by 2020 to be 20% of 2006 levels. The action plan states that this will achieve an overall reduction of 150 Mt of GHG emissions by 2020.<sup>3</sup>

### *Compliance mechanisms*

Businesses that have to achieve GHG emission intensity improvements may choose among the following five measures:

- Reduce internal emissions by adopting energy efficiency measures, by improving energy management systems or by investing in GHG emission reduction technologies;
- Contribute to a technology fund that will serve to develop and deploy new technologies to reduce industrial GHG emissions reduction technologies. The contribution rate would be \$15 per tonne of carbon dioxide equivalent from 2010 to 2012 and \$20 per tonne in 2013. The rate for subsequent years will then be established annually according to the rate of growth of nominal GDP. Contributions will be limited to 70% of the total GHG emissions reductions in 2010 and will decrease annually to eventually reach 10% in 2017. No contribution to the technology fund will be allowed for compliance purposes after 2018;
- Participate in a national trading system by purchasing emission credits from businesses whose GHG emissions are lower than existing targets. Potential links with U.S. and Mexican trading systems are under consideration by the Canadian government;
- Obtain domestic offset credits<sup>4</sup> from activities not obliged to reduce their GHG emissions intensity. These offset credits would thus be granted for verified reductions in GHG emissions exceeding those produced without a regulatory system or other government programs. The purchase of such offset credits would take place in an emission trading mechanism; or

- Obtain access to emission reduction credits (CDM) from projects in developing countries. However, credits from CDM projects must not exceed 10% of each regulated, firm's GHG emission reduction target.

### *Credit for early action*

Regulated companies that have taken verifiable measures to reduce their GHG emissions between 1992 and 2006 will be eligible for a one-time credit that may be used either to meet their compliance obligations or for trading credits for early action. These credits may not exceed 15 Mt of GHG for all regulated companies.

### *Federal/Provincial equivalency agreement*

In order to reach these GHG emission intensity targets, a close collaboration is expected between the federal government and the provincial and territorial governments, in particular as a result of the "equivalency agreements". These equivalency agreements will help to avoid any duplication of regulation and programs.

Alberta, Quebec and Nova Scotia have passed GHG-related legislation. Initiatives are under way in British Columbia, Manitoba and Ontario.

## **3) REDUCTION OF AIR POLLUTANTS**

In addition to reducing GHG emissions, the federal action plan is also aimed at reducing other air pollutants. In contrast to GHG emissions, reductions in air pollutant emissions are based on a fixed cap and are generally called "absolute reduction". In other words, the reduction in emissions of these pollutants is not based on a production level.

### *Targets for 2012*

The industrial sectors mentioned previously will have to meet reduction targets at the earliest in 2012 for the four following air pollutants:

- Nitrogen oxides (NO<sub>x</sub>)
- Sulphur oxides (SO<sub>x</sub>)
- Volatile organic compounds (VOCs)
- Particulate matter (PM).

Benzene and mercury are also expected to be subject to emission targets.

The absolute emission reduction targets will be established no later than the fall of 2007. The objective is to achieve, by 2012, reductions of up to 55% of the 2006 levels.

### *Compliance mechanisms*

Companies targeted by these absolute reductions of air pollutants have three compliance mechanisms:

- Reduce their internal emissions by modifying their internal processes or by investing in air emission reduction technologies;

- Participate in domestic emissions trading of SO<sub>x</sub> and NO<sub>x</sub>; or
- Eventually, use offset credits.

#### 4) Other measures

The action plan also considers setting up regulations in the transportation sector, in energy efficiency and air quality.

In conclusion, a number of consultations are currently underway in order to more precisely establish this regulatory framework on air emissions and ultimately develop these various regulations. It will thus be important for industrial sectors to perform a rigorous analysis of their strategies to comply with the regulatory framework on air emissions and actively participate in the consultations so as to ensure an efficient dialogue with the federal government.

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- 1) A GHG emission intensity reduction is a GHG emission reduction based on the level of production of a facility. As a result, although an installation may be required to reduce its GHG emission intensity, its level of GHG emission may increase in the event of an increase of production;
  - 2) Fixed process emissions are emissions that are tied to production and for which there is no alternative technology that will reduce them;
  - 3) Canada's commitment to the Kyoto Protocol requires a 220 Mt of GHG emission reduction from estimated 2006 GHG levels by 2012;

- 4) Offset credits are for emission reductions occurring outside regulated activities. In other words, offset credits are credits obtained through GHG emission reduction projects that are established voluntarily.