

Allocating Canadian Greenhouse Gas Emission Reductions Amongst Sources and Provinces: Learning from the European Union, Australia and Germany

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Executive Summary

Allocating Canadian Greenhouse Gas
Emission Reductions
Amongst Sources and Provinces



Allocating Canadian GHG 2013

This report draws lessons from experience in the European Union, Australia and Germany and uses them to provide recommendations for how Canadian federal and provincial governments can put in place co-ordinated, effective climate-change policy.

The problem: lack of co-ordination prevents Canada from achieving its goal

By 2020, existing federal and provincial programs will only achieve half of Canada's goal of reducing greenhouse gas (GHG) emissions to 17% below the 2005 level. To achieve that objective, Canadian governments must double their effort. That is almost impossible because today each of the eleven federal and provincial governments is acting almost completely alone. Without any intergovernmental system for co-ordinating policy, why would any one Canadian government double its effort and cost, knowing that its actions alone cannot achieve success and that there is no guarantee other Canadian governments will do the same thing?

The Government of Canada has committed to the objective of reaching a new international agreement on mitigation of greenhouse gases as part of the Durban Platform for Enhanced Action established in 2011. Living up to this commitment will require, among other things, that Canada establish by 2015 a new Canadian target for the period after 2020. To achieve the existing 2020 target or this new post-2020 target,

Canadian governments must start working together. In doing so, they must face the fact that reducing total Canadian GHG emissions imposes greater costs upon some provinces than others. To avoid one or more provinces from opting out or blocking co-ordinated policy development, they must find ways of sharing the reduction cost amongst both GHG sources and provinces in a way which is seen by all to be fair and equitable.

Two things currently prevent Canadian governments from successfully co-ordinating their climate-change policy:

- the weakness of the intergovernmental system used to develop co-ordinated federal-provincial policy; and,
- their failure to address the fact that reduction costs are much higher in some parts of the country, particularly Alberta and Saskatchewan, than in others.

The solution: learn from how other governments have achieved co-ordination

This research project sets out in detail how those two problems have to date prevented effective Canadian policy. It then examines the ways in which other federated systems, most notably the European Union, which is most similar to Canadian decentralized federalism, have successfully addressed those two problems. Comparison between failure in the Canadian case and success in the other three is then used to draw lessons for future Canadian policy.

Explaining Canadian failure to date

The process of Joint Meetings of Environment and Energy Ministers, used between 1990 and 2002, was not strong enough to ensure all governments accepted joint decisions or to survive the federal government decision to ratify the Kyoto Protocol in 2002. During the early period, the intergovernmental system suffered from these problems: lack of codified rules, based in a formal federal-provincial agreement; lack of trust; and, lack of an established, permanent supporting body of officials. It was further weakened by the fact First Ministers (the Prime Minister and provincial Premiers) were not formally part of the system and by the very different mandates of environment and energy ministers. Since 2003, there has been no formal intergovernmental system and so of course there has been no co-ordinated policy.

Canadian governments have always known that the problem of differing provincial costs was their greatest co-ordination challenge and in 1997 adopted the principle that national policy would not impose an “unreasonable burden” upon any region. However, they believed the problem was too politically divisive and so, apart from Quebec, took no actions to implement that principle. That precluded the possibility of finding ways of making those costs more equitable and thus paving the way to agreement on co-ordinated policy.

Successful co-ordination in the EU, Australia and Germany

The EU has twice reached agreement on sharing a total reduction effort amongst member states, in 1997-1998 and again in 2008. It was able to do so because it used a formal, codified intergovernmental process which, in 2008, included First Ministers (heads of state). It also explicitly faced the issue of differing reduction costs, and then used measures to make the sharing of cost more equitable. These included assigning different reduction targets to different member states and, in 2008, providing financial compensation to those with less capacity to absorb reduction costs. In both cases, agreement was reached by consensual decision-making (the only means available to Canadian governments). The Australian and German cases also show the benefits of strong intergovernmental institutions and actions to make costs more equitable.

Lessons from the four cases

The cases provide these lessons for future efforts to develop co-ordinated federal and provincial climate policies in Canada.

1. Consensual decision-making does not preclude reaching agreement on cost sharing.
2. The intergovernmental system must be strengthened by codification and by making First Ministers a formal part of the process.
3. The issue of allocating the total GHG reduction effort amongst provinces must be addressed at the outset, so that mechanisms can be used to make cost sharing as equitable as possible.
4. The issue of allocating the total GHG reduction effort amongst provinces must be addressed at the outset, so that mechanisms can be used to make cost sharing as equitable as possible.
5. To ensure provincial buy-in, the post-2020 target cannot be set by the federal government alone, but instead must be decided by agreement among all Canadian governments.

Lessons from consulting with Canadian experts

Based on these lessons, we developed draft recommendations and discussed them with government, industry and environmental climate policy professionals. Although far from unanimous, there was general agreement with these lessons, but considerable scepticism that Canadian governments would ever act on them. To maximize that possibility, we were told that any new climate policy intergovernmental system (which all agreed was needed) must use existing organizations and practices; that First Ministers will only meet if prior negotiations have come close enough to agreement that a successful meeting is guaranteed; and that it is politically impossible to use one lesson

from the cases, financial compensation to make costs more equitable, in the case of Canada's richest province, Alberta.

Recommendations for Canadian federal and provincial governments

Combining lessons from the case analysis and results of this consultation, we make two sets of recommendations, one for a new intergovernmental system and one for actions to be taken by governments within that system. Our proposed intergovernmental system has these characteristics:

- a codified foundation provided by a formal Federal-Provincial-Territorial Agreement setting out the process for joint decision-making;
- leadership by First Ministers, who would meet twice:
- in 2014, to sign that Federal-Provincial-Territorial Agreement and agree on principles for allocation of reductions among provinces;
- in 2015, to sign a second Federal-Provincial-Territorial Agreement, setting out the post-2020 target and associated allocation of reductions among provinces;
- on-going co-ordination by Environment Ministers, using the established body of the Canadian Council of Ministers of Environment, reporting to First Ministers, and consulting with energy and other ministers as needed.

Using that system, we recommend Canadian governments take these actions:

- first agree on principles to guide allocation of the total reduction effort represented by the existing and post-2020 targets;
- then in 2014 use those principles, plus equity-enhancing mechanisms such as differing provincial reduction targets, to negotiate agreement on allocation of reductions needed to meet the current 2020 target;
- in 2015, reach agreement on the post-2020 target and allocation of the associated reduction effort.

Figure 1 below depicts the sequence of recommended actions to be done.

Figure 1: Time-line of recommended actions

What follows is a temporal picture of the recommendations. It is designed to allow Canada to meet the target date of the December 2015 UNFCCC Conference of Parties for reporting to the international community its post-2020 Durban target.

<i>2013</i>	Using CCME, governments begin to develop plans for the intergovernmental system and principles for allocation, including development of the draft Federal-Provincial-Territorial Agreement;
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early 2014

First Ministers meet to adopt the first Federal-Provincial-Territorial Agreement and principles to be used for allocation;

mid 2014

Using those principles and the intergovernmental system set out in the FPT Agreement, Environment Ministers agree on allocation amongst sources and provinces of the GHG emission reductions needed to achieve the current 17% reduction target by 2020;

CCME begins regular, public reporting to governments on progress in meeting that target, to be done until the end of 2020 and then afterward for the post-2020 target;

CCME begins to develop the second Federal-Provincial-Territorial Agreement on the post-2020 target and associated allocation;

mid 2015

Environment Ministers develop the second draft Federal-Provincial-Territorial Agreement on the post-2020 target and associated allocation, to be recommended to First Ministers;

fall 2015

First Ministers agree on the second Federal-Provincial-Territorial Agreement which sets out the post-2020 target and associated allocation;

Dec 2015

At the relevant UNFCCC Conference of Parties, the federal government to the extent possible abides by the previously agreed post-2020 target.

List of Recommendations

Establishing a new intergovernmental climate policy system

1. We recommend that Canadian governments establish a new intergovernmental system for developing co-ordinated national policy by using the Canadian Council of Ministers of the Environment (CCME) to reach agreement on design of the system and setting out that design in a draft Federal-Provincial-Territorial Agreement, to be considered and approved by First Ministers.
2. We recommend that this new intergovernmental climate policy system be led by First Ministers.
3. We recommend that First Ministers delegate the task of policy co-ordination to Environment Ministers; that those ministers consult with Energy and other ministers as required; and that Environment Ministers report to First Ministers.
4. We recommend that Environment Ministers be supported by the established, permanent intergovernmental body, the Canadian Council of Ministers of Environment (CCME).
5. We recommend that Environment Ministers, through CCME, establish the necessary machinery of intergovernmental relations (IGR), which would include federal-provincial committees, working groups and other bodies as needed, to do the needed economic and technical analysis.
6. We recommend that one of those bodies be given a mandate to address the issue of allocation of GHG reductions amongst sources and provinces.
7. We recommend that existing financial and staffing resources of CCME be augmented as necessary. We recommend that Environment Ministers, through CCME, use a stable, predictable decision-making process, based on meetings of officials and ministers scheduled well in advance and made publicly available.
8. We recommend that Environment Ministers, through CCME, regularly review this institutional system to allow the flexibility needed to respond to changing circumstances, in Canada or elsewhere, while gaining the benefits which come from permanence and predictability.
9. We recommend that Environment Ministers, through CCME, report regularly and publicly to Canadian governments on policy actions taken by those governments.
10. We recommend that all decisions of appointed and elected officials be made by consensus.

Reaching agreement on co-ordinated policy

1. We recommend that Environment Ministers, working through CCME and consulting with other ministers as needed, reach agreement and recommend to First Ministers principles to be used in deciding allocation of GHG emission reductions amongst sources and provinces.
2. We recommend that First Ministers meet at the call of the Prime Minister to do two things:
 - discuss, modify as necessary and sign the Federal-Provincial-Territorial Agreement (Recommendation 1 above);
 - discuss, modify as necessary and reach agreement on the principles recommended by Environment Ministers to be used in deciding allocation of reductions amongst sources and provinces.
3. We recommend that Environment Ministers, working through CCME, then use those principles and equity-enhancing mechanisms to reach agreement on allocation amongst sources and provinces of the GHG emission reductions needed to achieve the current 17% reduction target by 2020.
4. We recommend that Environment Ministers, working through CCME, use those principles and equity-enhancing mechanisms again, this time to reach agreement on a post-2020 target and allocation of its cost amongst sources and provinces, and that this agreement be set out in a second draft Federal-Provincial-Territorial Agreement, recommended for signature by First Ministers.
5. We recommend that this second Federal-Provincial-Territorial Agreement include a commitment to abide by common decisions, while leaving open to governments the option of taking policy action which exceeds commonly agreed measures.
6. We recommend that before the end of 2015, First Ministers meet again at the call of the Prime Minister to discuss, modify as necessary and sign the second Federal-Provincial-Territorial Agreement on the post-2020 target and associated allocation GHG reductions amongst sources and provinces.
7. We recommend the Government of Canada, to the extent possible, not deviate from that target during the international process of establishing the next Canadian target as its contribution to the UNFCCC post-2020 Durban target.