

# The need for agreement on equitable sharing of emission reduction costs: A fifth Working Group should be added to the Vancouver Declaration process

## Submission to the Vancouver Declaration Federal-Provincial-Territorial Working Groups

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### Introduction

The key issue which must be addressed by the Vancouver Declaration federal-provincial-territorial process is the need for agreement on how the total cost of meeting Canada's 2020 and 2030 international commitments to greenhouse gas emission reductions will be shared among the provinces and territories.

Our research has shown that the basic question of what a national program will cost their province was top of mind for provincial officials during the previous National Climate Change Process (NCCP) 1998-2002. Based on comments to date from Premier Wall and others we are sure it is again today. However, if it is not addressed explicitly there is no opportunity to negotiate an agreement. Instead, provinces sufficiently worried about the cost will simply opt out of the process.

To address this issue, we recommend the Vancouver Declaration process be amended by adding a fifth Working Group with a mandate to address the issue of equitable sharing of reduction costs among both sectors and provinces.

### The reduction challenges

#### A. *Reductions needed to meet the 2020 target*

The Government of Canada committed as part of the 2009 Copenhagen Conference of Parties (CoP) to reduce emissions 17% below 2005 levels. That means they must total 622 Mt in 2020 (Canada, 2016).

Projected emissions by 2020 with forecasts of economic conditions and existing policy measures that have been put in place as of September, 2015 (Canada 2016, p. 17) and so do not include the most recent Alberta and Ontario programs (see below for estimate of effects of those programs) are as follows:

Highest:	790 Mt
Lowest:	749 Mt
Projected:	768 Mt

Gap to be filled, from 768 Mt to achieve 622 Mt = 146 Mt

## *B. Reductions needed to meet the 2030 target*

The Government of Canada committed as part of the 2015 Paris CoP to achieve a minimum target of 30% below 2005 levels. That means they must total 524 Mt in 2030 (Canada, 2016).

Highest: 875 Mt  
Lowest: 765 Mt  
Projected: 815 Mt

Gap to be filled, from 815 Mt to achieve 524 Mt = 291 Mt

Modelling has been done of the effect of these policy initiatives announced since September, 2015: the new Alberta plan; Ontario cap-and-trade law; Saskatchewan commitment to achieve 50% electricity from renewable from renewable sources by 2030; the Canada-US March, 2016 commitment to reduce methane emissions (Sawyer and Bataille, 2016). This modelling shows 2030 emissions might be 709 Mt, leaving a gap of 185 Mt.

For purposes of this document, we assume the 2030 gap = 185 Mt

### **How can we close the gaps: federal or provincial policy?**

In a purely legal sense, it seems likely the Government of Canada has constitutional jurisdiction which would allow it to act alone, using federal law, tax or other policy instruments, to require reductions of 146 Mt by 2020 and 185 Mt by 2030. If that were done, the federal government itself could decide the key political issue of allocating those total reductions among sources and provinces.

In fact, that is not possible, for several reasons. The provinces have constitutional ownership of the energy resources and so would be well positioned to launch a legal challenge to such federal action. Alberta introduced its own legislation in 2002 for the explicitly stated purpose of improving its legal ability to block in court federal regulation of its industries (Macdonald, 2010). Unilateral federal regulation might have been possible in the early 1990s, before provinces had policies in place. Today, however, it is impossible given the fact the provinces are well ahead of the federal government on climate change policy. It is clear from comments made by provincial premiers during the past months that they would never accept such federal action. Accordingly, no federal government will act unilaterally today, both because of the stress to national unity and the votes lost in different parts of the country.

Reductions within a given province can be achieved either through policy action by that provincial government, or federal policy which brings about reductions in that province, or both. Regardless, the total provincial reduction, and therefore cost to the provincial economy, will be of great concern to that provincial government. For that reason, the reduction will only be politically viable if it has achieved previous prior consent of the relevant provincial government. In practice, the provincial government is likely to insist upon using its own provincial law, rather than accepting federal action within its borders.

Thus the question of whether we use federal or provincial policy is less important than the need to first reach agreement on the costs each province will bear.

### **How should we allocate the gap reductions: by sector or by province?**

Presumably the relevant Working Groups wish to achieve that 185 Mt reduction from the projected 2030 815 Mt level in the most efficient manner possible, through reductions in sectoral sources with the lowest per-tonne reduction costs. If that is the only criterion, the challenge is to determine how the total reduction should be allocated among the major sources. What follow is a listing of relative contributions of sources in 2014.

## Emissions by Economic Sector, 2014

Oil and Gas	192 Mt	26%
Transportation	171 Mt	23%
Buildings	87 Mt	12%
Electricity	78 Mt	11%
Emissions-Intensive & Trade-Exposed (EITE) industries	76 Mt	10%
Agriculture	73 Mt	10%
Waste and others	54 Mt	7%
Total	732 Mt	

Source: Environment and Climate Change Canada, 2016a (Figure S-8: Canada's Emissions Breakdown by Economic Sector (2014))

Technical analysis can identify the most efficient (lowest total cost) allocation of the total reduction among those sources. However, we know from our research on the previous major federal-provincial effort, the National Climate Change Process, 1998-2002, that participants were always very much aware of how any given total reduction would be allocated among provinces (Macdonald et al, 2013). In confidential interviews with former provincial environment ministers and senior officials we were told that the potential cost to their province of any possible national program was always a matter of high priority for provincial officials.

Undoubtedly that is again the case in 2016. Presumably the working groups are engaged in technical studies of the most efficient distribution of the total reduction to close each gap among the sources listed above. However, we can safely assume that officials and elected leaders are also tracking implications of that technical analysis for portions of the total burden borne by each province. We assume allocation among provinces is part of the Vancouver Declaration process, but it is being done implicitly.

The problem is that implicit allocation is hampered by lack of a formal mechanism for bargaining agreement on cost sharing. The current implicit approach is more likely to lead to break-down of the process, with some governments withdrawing, than to success.

## What might allocation among provinces look like?

The share contributed by each province and territory to the total Canadian emission in 2014 is as follows.

### Provincial Emissions, 2014

Alberta	274 Mt	37%
Ontario	170 Mt	23%
Quebec	83 Mt	11%
Saskatchewan	76 Mt	10%
BC	63 Mt	8%
Manitoba	21 Mt	2%
Nova Scotia	17 Mt	2%
New Brunswick	15 Mt	2%
Newfoundland	10.6 Mt	1%
PEI, Yukon, NWT and Nunavut	3.9 Mt	.4%
Total	733.5 Mt	

Source: Environment and Climate Change Canada, 2016a (Table S-4: GHG Emissions Provinces/Territories, Selected Years)

In terms of the 2030 target, it is clear the 185 Mt reduction has to come primarily from the five largest provinces (Alberta, Ontario, Quebec, Saskatchewan and BC) because emissions from the remaining provinces and territories make up such a small portion of the total. Within those five, a significant portion has to come from the top two, which together contribute 60% of the Canadian total. Each of the two has powerful reasons for being reluctant to make further reductions beyond those already planned.

Alberta's economy has been badly hurt by the drop in oil prices; the NDP government broke with Alberta tradition and last year introduced a significant reduction program, and so might feel it has done enough. Ontario has even stronger reasons for feeling it has done enough, after the coal phase-out, 2009 Green Energy Act and current cap-and-trade program. Ontario emissions have declined, while those in Alberta have not (Environment and Climate Change Canada, 2016b).

Reaching agreement among governments on cost sharing is a major challenge. That is why it cannot be done implicitly, on the back of an envelope. Instead, a formal process, through creation of a fifth Working Group, is needed.

### **Why explicit allocation among provinces is essential**

Beyond the fact that provincial officials will inevitably focus upon it, there are two other reasons that the total 185 Mt reduction must be explicitly allocated among provinces, as well as sources.

1. Canada is committed, by the outcomes of the 2009 Copenhagen and 2015 Paris CoPs, to specific reduction figures – 146 Mt by 2020 and 185 Mt by 2030. Those specific targets preclude use of a voluntary, bottom-up process which side-steps the need for burden sharing. Under the Stephen Harper government, 2006 to 2015, all Canadian governments implemented unilateral climate policies, without regard to the national commitment. Environment Canada has consistently reported that the projected total of those voluntary initiatives would fall short of achieving the 2020 target. The Paris CoP relied upon a voluntary, bottom-up process which allowed the 176 countries to reach agreement. However, as in the Canadian case, the total of those voluntary commitments is not enough to achieve the two degree warming target - in fact, it will be closer to three degrees (UNEP 2015). These two examples show that if we side-step the difficult issue of burden sharing, we cannot put in place effective policy.

2. Because per capita reduction costs differ significantly among provinces, the burden of any given pan-Canadian reduction is not equal and therefore is likely to be seen as unfair. All economic modelling of national climate programs has shown that because of the carbon intensity of their economies, Alberta and Saskatchewan face much higher per capita reduction costs than do other provinces (Macdonald et al, 2013). Not surprisingly, those two provinces have been the most reluctant to see a national program put in place and, until the Alberta 2015 program, were not taking effective action to reduce their emissions. Those two provinces are unlikely to accept a national program which requires them to incur significant costs unless other parts of the country demonstrate they are willing to share the total reduction cost in what is seen as an equitable manner.

### **The danger of one or more governments opting out of the Vancouver process**

Keeping all the players at the table in a federal-provincial policy process is very difficult, given the decentralized nature of Canadian federalism and intergovernmental relations. Any government can opt out of a national policy-making process, as we saw recently when Quebec and Manitoba did not sign on to the June 20, 2016 CPP agreement. In spring, 2002, the Government of Canada effectively opted out of the NCCP when it published a discussion paper on unilateral federal regulation. Shortly afterward, Alberta formally left the process. Federal ratification of Kyoto in fall 2002, over objections of all the provinces, brought the process to an end (Macdonald, et al 2013). The Martin government, 2003 to 2005, worked to develop bilateral federal-provincial agreements. The Harper government made no formal

efforts to develop co-ordinated policy. Thus the 2016 Vancouver Declaration process is the first formal federal-provincial climate change process since the last one ended in failure fourteen years ago.

This history shows that the Vancouver Declaration process runs a very real risk of governments opting out and effectively ending the process, as happened last time.

To keep all governments at the table, there must be a clear commitment to the principle adopted at the 1997 First Ministers meeting, immediately after the Kyoto CoP, that no province will be asked to bear an undue portion of the total cost. That clear commitment has to have a formal, institutional structure, which could be provided by creation of a fifth Working Group.

### **Negotiating equitable cost sharing requires a formal, agreed process**

There are many possible approaches which could provide the basis for what is seen as an equitable sharing of emission reductions (Boothe and Boudreault, 2016). The EU has twice negotiated burden sharing by using agreed upon principles, technical analysis and then political horse-trading, including compensation for those most affected (Macdonald et al, 2013). We are not suggesting here use of any one particular approach. Instead, we recommend that a formal intergovernmental *process* be put in place to address the issue of burden sharing.

We make the point that the Vancouver Declaration process provides no mechanism for reaching agreement on allocation of the 146 Mt and 185 Mt reductions among provinces, since it is not included in the mandate of any of the four Working Groups. By definition, the Vancouver Declaration process as currently constituted cannot resolve the key issue standing in the way of its success.

### **Create a fifth working group**

In 2000, upset because other governments would not listen to its urging that the total reduction be explicitly allocated among provinces as well as sectors (what we recommend here), Quebec temporarily left the NCCP. In order to bring Quebec back into the process, the October 16-17, 2000 meeting of environment and energy ministers created the Emissions Allocation and Burden Sharing Working Group. This provided a mechanism to examine the issue of provincial allocation. Unfortunately, the NCCP ended after its last meeting in October, 2002, before it could address burden sharing (Macdonald et al, 2013).

We strongly recommend that the federal and provincial governments do the same thing as was done in October, 2000, and create a working group to address equitable sharing of a cost.

Creation of a fifth Working Group with a mandate to investigate and recommend an allocation of the 185 Mt reduction among provinces would provide these benefits.

- It would be a visible signal that governments are committed to reaching agreement on equitable sharing of the total cost.
- It would provide the resources and processes necessary for technical examination of different allocation criteria and options.
- It would provide an initial forum for discussion and negotiation of different mechanisms for equitable cost sharing, such as differing provincial targets or financial transfers.

Thank you for your consideration. We would be pleased to provide any further comment and analysis which might help the working group process.

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